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BEFORE THE ARIZONA CORPORATION COMMISSION

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2 COMMISSIONERS

2009 DEC -7 P 3:04

3 KRISTIN K. MAYES - Chairman  
4 GARY PIERCE  
5 PAUL NEWMAN  
6 SANDRA D. KENNEDY  
7 BOB STUMP

AZ CORP COMMISSION  
DOCKET CONTROL

7 IN THE MATTER OF THE APPLICATION OF  
8 GLOBAL WATER – PALO VERDE  
9 UTILITIES COMPANY FOR THE  
10 ESTABLISHMENT OF JUST AND  
11 REASONABLE RATES AND CHARGES FOR  
12 UTILITY SERVICE DESIGNED TO REALIZE  
A REASONABLE RATE OF RETURN ON  
THE FAIR VALUE OF ITS PROPERTY  
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. SW-20445A-09-0077

13 IN THE MATTER OF THE APPLICATION OF  
14 VALENCIA WATER COMPANY – GREATER  
15 BUCKEYE DIVISION FOR THE  
16 ESTABLISHMENT OF JUST AND  
17 REASONABLE RATES AND CHARGES FOR  
18 UTILITY SERVICE DESIGNED TO REALIZE  
A REASONABLE RATE OF RETURN ON  
THE FAIR VALUE OF ITS PROPERTY  
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. W-02451A-09-0078

19 IN THE MATTER OF THE APPLICATION OF  
20 WILLOW VALLEY WATER COMPANY FOR  
21 THE ESTABLISHMENT OF JUST AND  
22 REASONABLE RATES AND CHARGES FOR  
23 UTILITY SERVICE DESIGNED TO REALIZE  
A REASONABLE RATE OF RETURN ON  
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DOCKET NO. W-01732A-09-0079

24 IN THE MATTER OF THE APPLICATION OF  
25 GLOBAL WATER – SANTA CRUZ WATER  
26 COMPANY FOR THE ESTABLISHMENT OF  
27 JUST AND REASONABLE RATES AND  
28 CHARGES FOR UTILITY SERVICE  
DESIGNED TO REALIZE A REASONABLE  
RATE OF RETURN ON THE FAIR VALUE  
OF ITS PROPERTY THROUGHOUT THE  
STATE OF ARIZONA.

DOCKET NO. W-20446A-09-0080

Arizona Corporation Commission  
**DOCKETED**

DEC -7 2009



1 IN THE MATTER OF THE APPLICATION OF  
2 WATER UTILITY OF GREATER TONOPAH  
3 FOR THE ESTABLISHMENT OF JUST AND  
4 REASONABLE RATES AND CHARGES FOR  
5 UTILITY SERVICE DESIGNED TO REALIZE  
6 A REASONABLE RATE OF RETURN ON  
7 THE FAIR VALUE OF ITS PROPERTY  
8 THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. W-02450A-09-0081

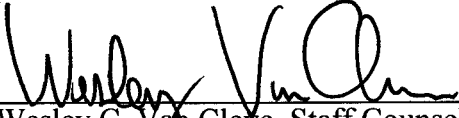
6 IN THE MATTER OF THE APPLICATION OF  
7 VALENCIA WATER COMPANY – TOWN  
8 DIVISION FOR THE ESTABLISHMENT OF  
9 JUST AND REASONABLE RATES AND  
10 CHARGES FOR UTILITY SERVICE  
11 DESIGNED TO REALIZE A REASONABLE  
12 RATE OF RETURN ON THE FAIR VALUE  
13 OF ITS PROPERTY THROUGHOUT THE  
14 STATE OF ARIZONA.

DOCKET NO. W-01212A-09-0082

**STAFF'S NOTICE OF FILING  
SURREBUTTAL TESTIMONY**

12 Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony  
13 of Staff Witnesses Linda A. Jaress, Crystal S. Brown and Jian W. Liu in the above-referenced matter.

14 RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of December, 2009.

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22 **Original and thirteen (13) copies**  
23 **of the foregoing were filed this**  
24 **7<sup>th</sup> day of December, 2009 with:**

24 Docket Control  
25 Arizona Corporation Commission  
26 1200 West Washington Street  
27 Phoenix, Arizona 85007  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

IN THE MATTER OF THE APPLICATION OF )  
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DOCKET NO. W-01212A-09-0082

SURREBUTTAL

TESTIMONY

OF

LINDA A. JARESS

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 7, 2009

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## **SCHEDULES**

Net Plant Per Customer .....	LAJ-1 Surrebuttal
Calculation of ICFA Rate Base Adjustments .....	LAJ-2 Surrebuttal

**INTRODUCTION**

**Q. Are you the same Linda Jaress who filed direct testimony in this docket on October 26, 2009?**

**A. Yes.**

**TREATMENT OF INFRASTRUCTURE COORDINATION AND FINANCING AGREEMENT ("ICFA") REVENUE**

**Q. Please address Global Utilities three primary areas of Mr. Hill's and Mr. Rowell's rebuttal regarding your treatment of the ICFA revenue as Contribution in Advance of Construction ("CIAC"). These areas are:**

- 1. Staff admits that the ICFA funds could have been used for other purposes, yet Staff imputes them all to contributions.**
- 2. Staff's treatment of the ICFA funds punishes Global for being innovative.**
- 3. The ICFA funds are necessary for Global Utilities to continue its Total Water Management program.**

**A. Staff does not deny that ICFA funds could have been used for other purposes than contributions. However, because the ICFA fees are accounted for as revenue to the Global Parent, they are not trackable. They go into the same accounting "pot" as revenues from customers, proceeds from bank loans and bonds, earnings of the utilities, etc. However, as mentioned in my direct testimony, Global's contention is that ICFA fees were used for everything but plant. Staff believes this contention to be unrealistic.**

**Q. Why does Staff believe it is unrealistic that ICFA fees were used for everything but plant?**

**A. Staff's treatment of the ICFA fees as CIAC is supported by the absence of contributions on the balance sheet of most of the Global Utilities while CIAC is commonly found on the balance sheets of other utilities. Also, the ICFA fees are paid to Global Parent by developers and land-owners who require utility plant and utility service to sell homes, so it**

1 is logical to assume the fees will be used for that plant. Finally, the funneling of the ICFA  
2 fees from the developer, through the Global Parent and into the utilities as equity, is an  
3 expensive, uneconomic form of financing plant. In fact, equity financing is the most  
4 expensive form of financing plant. Thus, to protect the ratepayer from uneconomic  
5 financing of plant, from paying a return on and a return of plant financed by developers,  
6 Staff continues to recommend treatment of the ICFA fees as contributions.

7  
8 **Q. Does Staff's treatment of the ICFA funds as contributions "punish" Global for being**  
9 **innovative as Mr. Rowell asserts?**

10 A. Staff does not believe its treatment of ICFA funds as contributions punishes Global.  
11 Public utilities commonly perceive Staff's or the Commission's disallowances or other  
12 ratemaking adjustments as "punishment". Staff is not recommending that the Commission  
13 punish Global Utilities or Global Parent for whatever innovations they may have made,  
14 but wants to insure that the risk of innovation is borne by the innovators and not by the  
15 ratepayers.

16  
17 In Mr. Hill's rebuttal he says that he is an entrepreneur, "first and foremost". To quote the  
18 famous management guru of the older generation, Peter Drucker, "Entrepreneurs innovate.  
19 Innovation is the specific instrument of entrepreneurship. It is the act that endows  
20 resources with a new capacity to create wealth." According to the fallen, former CEO of  
21 Walt Disney Company, Michael Eisner, risk and innovation go hand in hand. According  
22 to Mr. Eisner, "When you're trying to create things that are new, you have to be prepared  
23 to be on the edge of risk." Staff does not condemn Global Parent for taking the risks  
24 associated with regional planning and ICFA contracts. But Staff believes the Global  
25 Parent should bear the burden of that risk, or at least deflect more of that risk to  
26 developers.



1     **Q.     Do you believe the ICFA fees are necessary to continue Global Parent's Total Water**  
2     **Management Program?**

3     A.     To respond to Global's concerns about the future of its Total Water Management program,  
4     a better understanding of the Total Water Management Program is necessary. Staff has  
5     searched for a definition of Total Water Management and has been unable to find one.  
6     Mr. Hill and Mr. Symmonds authored a paper entitled "Total Water Management", but  
7     even that paper does not offer a clear, concise definition. Neither does the Global  
8     Utilities' testimony. From the paper and testimonies, it appears that the term applies to  
9     "the use of recycled water for non-potable purposes such as irrigation of parks, common  
10    areas, medians and even residential yards" (Trevor Hill direct testimony page 20), overall  
11    productivity of water use, application of economics to encourage efficiency, the use of  
12    innovative new technology, participation of communities and local users in making  
13    decisions, awareness of environmental and social concerns, the supply of water of various  
14    quality for different uses and the provision of water service on a regional basis. If those  
15    and other factors comprise Total Water Management, it is an ambitious program.  
16    However, Staff believes that many of the same goals and activities of Total Water  
17    Management can be accomplished by any water or wastewater utility without a formal  
18    program. Furthermore, AIAC and CIAC could also be used to finance the program in  
19    place of ICFA fees.

1     **Q.     In several places, Mr. Hill's rebuttal testimony stresses the need for the Commission**  
2     **to recognize the tax liability generated by the ICFA revenue. Mr. Hill says at Page**  
3     **21, lines 12 – 14 of his rebuttal testimony that, "Since ICFAs were used as a tool to**  
4     **effectuate consolidation they had to be executed at the holding company (GWR)**  
5     **level. Because of this, revenue generated by the ICFAs is parent-level revenue and**  
6     **thus is taxable. Ignoring the tax liability associated with the ICFA revenues is**  
7     **inappropriate regardless of the regulatory treatment ultimately decided upon for the**  
8     **ICFA revenue." What is Staff's opinion about this issue?**

9     **A.**     During its formation, the members of Global Parent determined the organizational  
10     structure of their business and chose to form as a limited liability company. Had Global  
11     Parent been formed as a corporation, the business earnings would be taxed at the corporate  
12     level and taxed again as dividend income to the equity investors. In an LLC arrangement,  
13     the earnings flow through to the members untaxed. If the member does not have  
14     offsetting tax losses from other sources, the member pays taxes on his or her share of the  
15     earnings of the LLC. On the other hand, if the LLC suffers net losses, those losses can  
16     offset the profits from the members other business interests. It appears that members of  
17     the Global Parent also decided that the LLC would make distributions to the members in  
18     amounts sufficient to pay the income tax on the earnings of the LLC allocated to each  
19     member.

20  
21     Another decision made by the members was for the Global Parent to account for the ICFA  
22     fees received from developers as revenue to the Global Parent and not as contributions to  
23     the Global Utilities. This decision resulted in the proceeds from the ICFAs becoming  
24     taxable.

1 The choice to structure the Company and the ICFA contracts in such a way that makes the  
2 ICFA proceeds taxable to the members is not a valid reason for the Commission to  
3 recognize the income tax effect of the ICFA fees on the members' personal income taxes.  
4 Staff continues to contend that the ICFA fees replace contributions and advances which  
5 are not taxable to a utility and, therefore, taxes on the fees should not be recognized by the  
6 utilities.

7  
8 **Q. Is there another reason Staff did not acknowledge the members' tax liability**  
9 **generated by the ICFA fees?**

10 A. Yes. Another reason Staff did not address the issue of the members' tax liability  
11 generated by the ICFA fees is the same reason that Staff does not address the tax liability  
12 of the shareholders of a utility formed as a corporation. The tax liability of investors is not  
13 part of the calculation of revenue requirement.

14  
15 **Q. If there are other more efficient, non-taxable methods of financing available such as**  
16 **bonds, bank loans, equity investment, AIAC and CIAC, why would the Global**  
17 **Parent members decide to accept the ICFA fees as taxable revenue?**

18 A. The Global Parent members would be indifferent to the taxable nature of the ICFA  
19 revenue because the LLC distributes to its members amounts sufficient to pay the tax  
20 liability from the ICFA revenue. Therefore, the ICFA fees have zero cost to the members.

21  
22 The problem with this arrangement is that after the ICFA revenues flow through the  
23 income statement and become net income, Global Parent invests the net income into the  
24 Global Utilities as equity and has asked the Commission to allow a 10 percent return on  
25 that equity. If the Commission allowed that return, ratepayers would be paying a 10  
26 percent return on cost-free capital.

1   **Q.   On Pages 22 through 25, Mr. Hill expresses dissatisfaction with Staff's**  
2       **recommendations to reduce the rate base of the West Valley utilities by ICFA fees**  
3       **which results in a negative rate base. He also states that applying a negative rate**  
4       **base is an incentive to increase expenses. What are your comments?**

5   **A.**   First, Staff recommended a negative rate base and recommended that rates be set by  
6       operating margin only for WUGT, not for all three West Valley utilities. Second, if you  
7       apply the logic of Mr. Hill's assumption that setting rates on operating margin incents  
8       utilities to increase operating expenses one must also assume that setting rates based on a  
9       return on used and useful plant could incent utilities to build unneeded plant. As long as  
10      utility rates are not market-driven and rates are set to achieve a predetermined level of  
11      profit, there will be an unavoidable incentive for utilities to manipulate the system and  
12      spend where it will receive the highest return.

13  
14      Furthermore, the impact on WUGT of rates set on operating margin will be lessened as the  
15      company acquires more customers and the relationship of plant and customers changes.  
16      For example, if revenues are \$10,000, plant is \$40,000 and the utility is allowed operating  
17      margin of 10 percent, operating income will be \$1,000. If, through customer growth,  
18      revenues reach \$30,000, but no new plant is necessary, operating income will be \$3,000  
19      and whether or not the plant is included in rate base, the operating income will equal 7.5  
20      percent of plant. As customers are added, the calculated return on plant will increase.

21  
22      Finally, CIAC is amortized and as it is amortized the balance falls as does the reduction to  
23      rate base. Over several years, then, the rate base related to CIAC is restored.

1     **Q.     Do you share Mr. Hill's aversion to CIAC?**

2     A.     No. CIAC and AIAC are important components of utility capital structures, especially  
3           utilities who serve developments. CIAC and AIAC can insulate the ratepayer and the  
4           utility from the risk that a development fails.

5

6     **Q.     On Page 13, line 7 of his rebuttal testimony, Mr. Hill criticizes the use of CIAC by**  
7           **saying CIAC creates poor infrastructure and weak, undercapitalized utilities. Do**  
8           **you agree?**

9     A.     Over-reliance on CIAC and AIAC could create weak, undercapitalized utilities. However  
10           CIAC and AIAC in reasonable, balanced amounts, help create economical capital  
11           structures and can contribute to reasonable rates.

12

13    **Q.     On Page 18, lines 13 through 15, Mr. Hill states that if Global accepted CIAC from**  
14           **developers, Global would lose control over planning and building. Do you agree?**

15    A.     No, I do not. Under a CIAC or AIAC scenario, a utility can either build the plant itself  
16           and accept cash contributions from developers for the plant, or the utility can require the  
17           developer to build the plant to the utility's specifications and then contribute the plant to  
18           the utility. The utility maintains control over the plant specifications. Similar language is  
19           found in the line extension agreements which Global Parent attaches to the ICFA  
20           contracts.

21

22           Also, Global Parent's web site includes "Global Water Standards for the Planning, Design  
23           and Construction of Water and Wastewater Systems", a document which sets forth  
24           specific standards for use by home builders. A similar document could be produced which  
25           would set forth the standards by which the regional plant could be built.

1     **Q.     On Page 27 of his testimony, Mr. Hill makes a proposal that “The Commission find**  
2     **that ICFA revenue is CIAC unless the Company can prove it was used to enhance**  
3     **the public interest by engaging in acquisitions; regional planning and building;**  
4     **large-scale conservation; infusion of renewable water supplies into service areas; and**  
5     **reclamation and reuse.” What is Staff’s position on the proposal?**

6     A.     Although, on its face, the proposal sounds reasonable; on a practical basis, it falls short.  
7     First, with regard to the use of the plant and whether or not it was part of a regional plan,  
8     increases conservation, reduces reliance on groundwater, or whatever other standards  
9     Global would agree to, Staff’s position is that it was paid for by cost-free capital (ICFA  
10    revenues) and, therefore, customers should not pay a return on that plant. Mr. Hill’s  
11   proposal would require the Commission to adopt standards for regional planning (how big  
12   is too big? How many years ahead of customers growth is prudent?) which it does not  
13   normally do. This puts the Commission in the position of treating plant as if it were  
14   financed by Global members’ equity when it was financed by developers, again, placing  
15   the Global Utilities and their rate payers at risk for the recovery of that plant.

16  
17   **Q.     On the same pages, Mr. Hill warns the Commission that Global Parent will never**  
18   **acquire or consolidate small water companies in Arizona again if Staff’s**  
19   **recommendation of a negative rate base for WUGT is adopted. Please comment.**

20   A.     Staff believes that Global Parent should use its best business judgment in its decisions to  
21   acquire utilities regardless of whether they are “CIAC-based” or not. The size of the  
22   utility, the risk of recovery of acquisition adjustments, possible treatment of ICFA fees as  
23   CIAC should all be included in Global Parents purchase decisions. If Global believes the  
24   transaction would be too risky, then it should not make the purchase. If Global Parent  
25   would like special treatment related to the purchase, it should apply for an accounting  
26   order or some other formal guidance from the Commission. The Commission has never

1 indicated that the acquisition of small water companies should be rewarded by allowing a  
2 return on plant paid for with cost-free capital. Furthermore, not all small water companies  
3 are good candidates for purchase and consolidation.  
4

5 **Q. Doesn't the negative rate base Staff recommended for WUGT mean that WUGT will**  
6 **have to invest in millions of dollars of additional plant before its rate base becomes**  
7 **positive? Is that fair?**

8 **A.** Yes. That is the result of a negative rate base. Considerable additional investment in  
9 plant will need to be made before the rate base of WUGT turns positive. This is fair  
10 because amounts sufficient to pay for the additional plant have already been received  
11 through the ICFA fees paid by developers in the WUGT service territory.  
12

13 **OTHER REBUTTAL OF TREVOR HILL**

14 **Q. Mr. Hill also says that because Global performs significant outreach, because the**  
15 **Maricopa City Council did not feel the need to hold a franchise election, and because**  
16 **the cooperative efforts under the MOUs fulfill the requirements of Growing Smarter**  
17 **legislation, that the franchise-like fee should be passed through to rate payers. Please**  
18 **comment.**

19 **A.** Staff believes that amounts which flow through to the ratepayers pursuant to Commission  
20 rules and the Global Utilities' tariffs as franchise fees or franchise-like fees should be the  
21 result of a franchise election. The nobility of the cause for Global paying the fee should  
22 not be the determining factor for allowing pass-through treatment.

1   **Q.    On Pages 31 and 32 of his rebuttal testimony, Mr. Hill expresses concerns about**  
2       **Staff's recommendation regarding the Global Utilities' requested distributed**  
3       **renewable energy recovery tariff and believes Staff's position is contrary to Staff's**  
4       **agreement to the recent APS settlement where APS would recover operating costs**  
5       **and costs of capital for renewable projects. Please comment.**

6  
7   **A.    Staff believes the two cases to be very different. First, APS is mandated to use renewable**  
8       **energy and water and sewer utilities are not. Second, Global is requesting approval of a**  
9       **broad mechanism that gives them "accelerated" recovery of all costs related to all forms of**  
10      **distributed renewable energy. Third, Global has no experience with the use of this**  
11      **technology. Staff believes that for water and sewer utilities, the Commission should**  
12      **determine the treatment of the costs of installed and operating distributed renewable**  
13      **energy assets during a rate case.**

14  
15       Under the Global Utilities' proposal, the utilities will have transferred all the costs and  
16       risks of the facilities to the customers, many of whom may have already paid for some or  
17       all of the facilities through the REST surcharge and state and local tax credits. The current  
18       and proposed ED3 customers, according to ED3's filing in the transfer docket, may soon  
19       be in similar circumstances.

20  
21   **Q.    On Page 11, Lines 13 through 15, Mr. Hill asserts that "We have mothballed \$32**  
22       **million of plant...built only to comply with repeated Commission orders and**  
23       **indications from Staff to not ask for any further extensions of time." Do you agree**  
24       **with Mr. Hill that the Commission ordered Global to build plant?**

25   **A.    No. In CC&N and CC&N extension cases, Commission decisions often require utilities to**  
26       **file a copy of their Approval of Construction from ADEQ. Providing these approvals**



1 provides evidence that the need for service set forth in the utility's application still exists.  
2 The Commission is not ordering the utility to construct certain plant, but is ordering the  
3 company to file a document that corroborates the need for service. If plant is not needed,  
4 it should not be built.  
5

6 **Q. Mr. Hill believes that consolidation of small, undercapitalized utilities should not**  
7 **take place at the regulated utility level but should take place at the holding company**  
8 **level (Page 21 of Hill Rebuttal testimony). Do you agree?**

9 A. Staff believes that public interest considerations of consolidation of utilities should be  
10 made on a case by case basis. For example, geographical location, financial health,  
11 growth history, growth forecasts and acquisition premiums are factors which should be  
12 considered. Acquisition of a utility by a holding company may be beneficial to the  
13 shareholders or members of the holding company, but Staff knows of no specific reason  
14 why the acquisition of a utility by a holding company is more or less beneficial to the  
15 customers than acquisition of a utility by a utility.  
16

17 **OTHER REBUTTAL OF MATT ROWELL**

18 **Q. Why didn't you address carrying costs as Mr. Rowell suggests?**

19 A. Mr. Rowell has presented no evidence that the ICFA revenues were used for carrying  
20 costs. Staff believes the ICFA fees were used to finance plant and were not used for  
21 carrying costs. It does not seem reasonable to assume that developers paid Global Parent  
22 millions of dollars, not for plant but as a sort of donation to insure that the Global Parent  
23 members receive a return on non-ratebased plant and amounts sufficient to pay taxes on  
24 that return.

1 **Q. How has the Commission been addressing the cost of growth for electric utilities?**

2 A. In Decision Nos. 71274, dated September 9, 2009 and 70185, dated February 27, 2008,  
3 the Commission eliminated free footage in the APS and Sulphur Springs tariff for line  
4 extensions based on the premise that current ratepayers should not subsidize growth. This  
5 Decision would be consistent with the use of CIAC to finance growth. If the ICFA fees  
6 are excluded from the ratemaking process as Global Utilities suggest, and not determined  
7 to be CIAC, then the ratepayers would be paying a return on plant installed for growth.  
8

9 **Q. Mr. Rowell suggests, on Page 9, lines 8 and 9 of his rebuttal testimony, that "Some of**  
10 **the Global Utilities do have substantial CIAC balances. For instance, Valencia**  
11 **Greater Buckeye Division has a CIAC balance that is over 14 percent of its utility**  
12 **plant in service." He also says that Global's combined balances of AIAC and CIAC**  
13 **as a percentage of utility plant are within the "industry norm" as shown on Chart 1**  
14 **on Page 10. Please respond.**

15 A. First, it should be noted that the CIAC to which Mr. Rowell refers was already on the  
16 balance sheet of Valencia-Buckeye when the utility was purchased by Global. Second,  
17 since Global ownership, the Global Utilities have not accepted meaningful amounts of  
18 CIAC and the two largest Global Utilities have accepted none at all.  
19

20 Staff does not dispute the conclusions drawn from Mr. Rowell's Chart #1 which illustrates  
21 total AIAC and CIAC as a percent of utility plant in service. However, the Chart masks  
22 the proportion of utility plant financed by CIAC alone. Because CIAC generally serves a  
23 different purpose than AIAC, the Chart does not illustrate the percentage of backbone (or  
24 "off-site") plant financed by CIAC.

1     **Q.     A section of Mr. Rowell's rebuttal testimony called "The Implications of Regional**  
2     **Infrastructure: Conservation, Efficiency and Carrying Costs" includes several charts**  
3     **which show expenses and water use of selected Global utilities compared to that of**  
4     **selected Arizona water and sewer companies. Mr. Rowell's conclusion is that the**  
5     **charts are evidence that deploying infrastructure on a regional basis allows for lower**  
6     **operating costs and water conservation. Do you agree?**

7     A.     Mr. Rowell's charts do indicate lower than average consumption and expenses for certain  
8     of the Global Utilities compared to selected Arizona utilities. Whether or not the level of  
9     consumption in Santa Cruz is lower due to the prevalence of desert landscaping, the  
10    number of empty homes still taking minimal service to preserve the landscaping or is the  
11    result of the Global Parent or Global Utilities' regional planning and conservation efforts,  
12    is a matter of opinion.

13  
14    **Q.     Did Mr. Rowell present a graph which compares plant costs?**

15    A.     No. He either missed or ignored the largest cost component of service and the largest cost  
16    component of regional planning, and that is plant. Attached to this testimony as Exhibit  
17    LAJ-1 Surrebuttal, is information which illustrates the disadvantage of regional planning:  
18    It is expensive.

19  
20    **Q.     On Exhibit LAJ-1 Surrebuttal, how do Santa Cruz and Palo Verde compare to other**  
21    **large Arizona water and sewer utilities on a plant per customer basis?**

22    A.     The Exhibit shows that the net plant per customer of Santa Cruz at \$6,315 and of Palo  
23    Verde at \$7,118 are far greater than that of the other utilities shown.

1     **Q.     What do you believe the high plant costs reflect?**

2     A.     A portion, of the disproportionately high costs, could be related to the relatively young age  
3           of much of the Global Utilities plant. Net plant takes into account depreciation and the  
4           plant of some of the older systems of Arizona American and Arizona Water, for example,  
5           could have lower ratios due to average age of their plant. However, the plant of Johnson  
6           Utilities, like that of Palo Verde and Santa Cruz is relatively new and its net plant per  
7           customer ratio is much lower than that of Palo Verde and Santa Cruz. Even taking into  
8           effect the plant which Santa Cruz and Palo Verde voluntarily removed from rate base, the  
9           net plant per customer of Santa Cruz and Palo Verde results in \$5,400 and nearly \$6,000,  
10          respectively. These amounts still surpass those of the comparable companies.

11  
12    **Q.     How are these ratios related to regional planning?**

13    A.     The term "regional planning" implies planning and building to accommodate growth  
14           farther into the future than would be planned and built to accommodate growth for the  
15           short-term. This can result in plant sized for the future being currently not used and useful  
16           even though it is sized for the future. Because Staff Engineering has not found the Global  
17           Plant to be built in an uneconomical fashion, Staff believes that the net plant per customer  
18           ratios of Santa Cruz and Palo Verde are high due to regional planning.

19  
20    **Q.     What does Mr. Rowell say about using cost-free capital to purchase Arizona**  
21           **Utilities?**

22    A.     On Page 26, lines 21 and 22, he says, "Staff ignores the fact that Global will *never* earn a  
23           return on over \$40 million of its investments in Arizona utilities. Thus, even if ICFA fees  
24           were considered to be cost-free sources of capital the over \$40 million in acquisition  
25           premiums means that rate payers will not be paying a return on over \$40 million of that  
26           cost-free capital."

1 **Q. Do you agree?**

2 A. I agree that it is likely that the Global Utilities will not earn a return on the acquisition  
3 premium. I don't agree that Global financed the acquisition premiums with cost-free  
4 capital. Global Parent's 2008 financial statements indicate that the initial sales price of the  
5 \$18 million of WMC assets was \$60.0 million, some of which was immediately payable  
6 and the rest over several years through 2012. The imputed interest rate on the payments  
7 was 8.5 percent, an amount Global considered to be its cost of capital. Staff disagrees that  
8 WMC was purchased with cost-free capital, especially when the WMC purchase was  
9 financed with debt.  
10

11 **Q. On Page 32, Mr. Rowell accuses Staff of instituting a "triple-hit" against the Global**  
12 **Parent and Global Utilities. Please comment.**

13 A. Staff's recommendations were not made in a frivolous manner, nor would Staff ever  
14 consider any of its recommendations for ratemaking treatment of any cost or expense a  
15 "hit". Nevertheless, Staff will address Mr. Rowell's concerns as follows:  
16

- 17 1. Global's perceived Hit No. 1: The Company did not request recovery of an  
18 acquisition premium and could not have "afforded" the acquisition premium  
19 absent the ICFAs. Response: Staff is not convinced that the purchase of WMC at  
20 3.3 times book value is a transaction that, at least in hindsight, was a prudent  
21 transaction on the part of Global Parent. So Staff is unmoved by Global Utilities'  
22 implication that absent the ICFAs, Global Parent would not have entered the  
23 transaction.  
24
- 25 2. Global's perceived Hit No. 2: Staff did not recognize the tax liability related to the  
26 ICFA fees at the Global Parent level. Response: Please see tax liability discussion  
27 above.  
28
- 29 3. Global's perceived Hit No. 3: Expenditures on plant are being removed from rate  
30 base, while other actual costs related to the ICFAs are ignored. Response: Staff is  
31 unsure of the meaning of this concern. However, if Mr. Rowell is implying that  
32 the removal of CIAC from rate base should be offset by other expenses or costs he  
33 believes the ICFA revenues were used for, he has not specified which expenses or  
34 costs or how much of them the ICFA revenues were used for. Even had he

1 performed this analysis, Staff believes that all the ICFA fees should be considered  
2 CIAC based on all the reasons previously set forth in Staff's direct and surrebuttal  
3 testimony.  
4

5 **Q. On Page 39, lines 16 through 19, Mr. Rowell raises the issue that "In Staff's**  
6 **discussion of the ICFA issue they chose to completely ignore the significant**  
7 **acquisition premiums paid by Global for these utilities. Yet when discussing capital**  
8 **structure, Staff relies on the acquisition premiums to justify their position." Please**  
9 **comment.**

10 **A.** Mr. Rowell points out what he believes to be an inconsistency, when, in fact, Staff's  
11 treatment of ICFAs as CIAC together with the reduction of equity to reflect the acquisition  
12 premium is entirely consistent. In Staff's direct and surrebuttal testimony Staff has  
13 recommended the treatment of ICFA fees as CIAC on the books of each Global Utility for  
14 which the ICFA fees were collected because Staff believes the ICFA fees were used to  
15 build plant. Staff made the adjustments to the capital structure of Valencia-Buckeye for  
16 the acquisition premium to remove equity which would only exist because of the premium  
17 paid above book value. Staff sees these as two separate, unrelated issues and believes they  
18 are not contradictory.  
19

20 **REBUTTAL OF JAIME MOE**

21 **Q. Mr. Moe believes that property taxes are both a significant portion of operating**  
22 **expenses and volatile and should be included in a pass-through. As support for this**  
23 **statement, he finds that property tax expenses were 2.2 percent of operating expenses**  
24 **in 2006 and 5.8 percent in 2008. Please respond.**

25 **A.** Certainly a portion of the increase in property taxes could be attributable to the increase in  
26 plant and revenues over the same years. Some of the increase could also be attributed to  
27 the changes in the ratio of property tax to total expenses related to changes in other  
28 components of expenses such as the lowering of salaries and labor expenses due to the

1 Global Utilities lay-offs. The two percentage examples of Mr. Moe are not strong enough  
2 indicators of proportion or volatility of property taxes and do not cause Staff to change its  
3 recommendation.

4  
5 **Q. Mr. Moe also uses a one-time raise in the City of Maricopa's tax on "construction**  
6 **contracting" activities from 2 percent to 3.5 percent in 2005 as an example of how**  
7 **easily the increases in such taxes can be measured and therefore, that the**  
8 **Commission should adopt a pass-through for property taxes. Please respond.**

9 **A.** Although Staff is not certain that the construction contracting tax even resembles property  
10 tax, it is notable that if it applies to the Global Utilities, it does not appear to have caused  
11 the Global Utilities to file for a rate increase for four years.

12  
13 **Q. Mr. Moe maintains that the Commission should recognize that the MOUs with**  
14 **municipalities were entered "by elected representatives of the people of those cities**  
15 **and respect their choices." He also indicates that if the franchise-like fees are not**  
16 **allowed as a pass-through like real franchise fees, they should be recognized as**  
17 **expenses in the revenue requirement calculation. Do you agree?**

18 **A.** No. First, as mentioned in my direct testimony, Staff believes that Global Utilities already  
19 have the ability to pass-through franchise fees. However, Staff also believes that the tariff  
20 language that allows the pass-through should not be interpreted to mean that anything that  
21 resembles a franchise fee can be passed through. This would encourage agreements  
22 between public utilities and municipalities which, if passed-through, could place  
23 municipal expenses in utility rates. It also discourages full and complete disclosure of  
24 costs that will impact citizens (i.e. utility customers') utility bills. Staff maintains its  
25 position that after a franchise fee has been approved by the voters of the municipality, the  
26 franchise fee may be passed through to the customers.

1 **REBUTTAL OF MR. SYMMONDS**

2 **Q. In his rebuttal testimony Mr. Symmonds has provided new testimony recommending**  
3 **that the Commission approve a Demand-side Management Program ("DSM") and a**  
4 **Low Income Relief Tariff. What are Staff's concerns and recommendations**  
5 **regarding these programs?**

6 A. After an initial review of the proposed DSM program, Staff concludes that many of its  
7 elements are similar to the Arizona Department of Water Resources' Best Management  
8 Practices ("BMPs"). Staff sees potential positive results from such a program but because  
9 the tariff was filed so late in the proceeding, Staff needs more time and information to  
10 obtain a complete understanding of the program. Therefore, Staff recommends that within  
11 60 days of the date of the final order in this case the Global Utilities file the DSM Program  
12 tariffs for Staff's review and the Commission's consideration.

13  
14 Regarding the Low Income Relief Tariff, Staff also recommends that within 60 days of the  
15 docketing of the final order in this case the Global Utilities file the Low Income Relief  
16 tariff for Staff's review and the Commission's consideration.

17



1 **Q. Mr. Symmonds' responses to Staff's data requests and his rebuttal testimony stress**  
2 **that other than loaning Global Parent the use of their permits, the Global Utilities**  
3 **have no role in the recharge facilities, nor have they paid to acquire the water which**  
4 **is recharged into the facilities. He also states that the water which was recharged**  
5 **and ultimately used for water storage credits was Incentive Recharge Water**  
6 **acquired from CAP by WMC (the intermediate parent of the west valley Global**  
7 **Utilities) and the Global Utilities had no connection to those transactions. He**  
8 **believes that the Global Utilities should not benefit from those activities. Please**  
9 **comment.**

10 **A.** Staff believes that the permits held by the west valley Global Utilities enable WMC and  
11 Global Parent to store water, recover stored water and sell water storage credits. Global  
12 Utilities have not shown this to be false. Neither have they presented or quoted any law,  
13 rule or practice of ADWR which would forbid the storage and later recovery of CAP  
14 water or incentive recharge water for use by the Global Utilities that have the water  
15 storage permits and long term storage account. Staff continues to believe that the west  
16 valley Global Utilities should be compensated for the use of their permits by the Global  
17 Parent, and that west Valley Global Utilities should recognize a regulatory liability equal  
18 to the net sale proceeds, and continues to recommend that the west valley Utilities file a  
19 yearly compliance report indicating the revenue received by Global Parent or its  
20 assignee(s) from the sale of water storage credits generated by each Utility during the  
21 current year and the prior year.

22  
23 **RUCO**

24 **Q. What is RUCO's position on the treatment of the ICFA fees?**

25 **A.** On Page 15 of his direct testimony RUCO witness, Mr. Rigsby says "RUCO is unaware of  
26 any type of determination that the Commission has made regarding ICFAs to date. For

1           that reason, RUCO believes that a Commission decision that adopts RUCO's  
2           recommendation to treat funds collected through ICFA's, for the purpose of constructing  
3           plant for new development, as CIAC should be implemented on a going forward basis."

4  
5       **Q.     Do you agree?**

6       A.     No. Mr. Rigby implies that that if the Commission has not pre-determined ratemaking  
7           treatment for an "innovative" form of holding company financing that all the amounts  
8           collected by that form of financing are the holding company's to keep regardless of the  
9           use of those funds. His recommendation holds the Commission responsible for ferreting  
10          out any possible regulatory impact of holding company actions long before a rate case.  
11          This would have been especially difficult for the Commission when the holding company  
12          is formed before the utilities it holds are Class A utilities.

13  
14          It is not uncommon for utilities to request an order from the Commission for accounting  
15          treatment of certain actions such as capitalizing the capital costs on plant before it is  
16          included in rate base. The Commission took steps to place the Global Utilities on notice  
17          that it was concerned about the appropriate ratemaking treatment of the ICFA fees by  
18          opening a docket in the matter.

19          RUCO's recommendation is especially surprising because Mr. Rigsby readily admits that  
20          the use of the ICFA fees as equity in the Global Utilities "*shifts risk entirely onto*  
21          *ratepayers* who will have to pay rates that provide a return on a recovery of developer  
22          provided funds used to construct new plant which is treated as an addition to rate base...  
23          (emphasis added)." The only way for the Commission to shift the risk to the developers  
24          rather than the utility or its ratepayers, is to consider those funds as CIAC.

1 **Q. Do you agree with RUCO's recommendation regarding the fees that result from the**  
2 **MOUs with municipalities?**

3 A. No. Staff disagrees with RUCO's characterization of the fees set forth in the MOUs as  
4 franchise fees. Staff believes that franchise fees are fees created under a franchise  
5 agreement and approved by the voters of the municipality in a franchise election. Staff  
6 also believes that the pass-through provision in the Global Utilities' tariffs is and should  
7 continue to be, limited to franchise fees and should not apply to fees from other  
8 agreements with municipalities and counties.

9  
10 **Q. How did Mr. Rigsby determine the capital structure and cost of debt for the Global**  
11 **Utilities?**

12 A. Rather than determine the cost of debt or equity for the individual Global Utilities,  
13 Mr. Rigsby addressed the Global Utilities on a consolidated basis. Staff determined the  
14 cost of debt and capital structure on an individual company basis which supports the  
15 recognition of the specific financing and the cost of that financing for each utility. This  
16 reduces the subsidization of one utility by another.

17  
18 **Q. Didn't Staff apply the same cost of equity estimation for all of the Global Utilities?**

19 A. Yes. None of the utilities is publicly traded so the cost of each utility's equity cannot be  
20 individually determined. Furthermore, the parent is an LLC which would make the  
21 imputation of the cost of equity of the parent to the Global Utilities unsound. Staff felt  
22 there was no more logical method to estimate the cost of equity of the Global Utilities than  
23 by applying a cost of equity uniformly across the utilities.

1 **Q. What did Mr. Rigsby recommend for a consolidated return on equity?**

2 A. Mr. Rigsby recommended a cost of equity of 8.01 percent. Staff and the Global Utilities  
3 recommended a cost of equity of 10.0 percent. Staff did not perform a full cost of equity  
4 analysis. Instead, Staff relied on recent Staff testimony in other cases and a recent  
5 Commission Decision. Since the filing of Staff's direct testimony, the Commission  
6 approved an administrative law judge's proposed order in an Arizona-American rate case  
7 on November 19, 2009. The proposed order adopted 9.9 percent for this water and  
8 wastewater utility as the cost of equity. This further supports Staff's recommendation.  
9 The decision in the matter had not been filed in time for Staff to include the decision  
10 number. RUCO has not presented any evidence in this case that wasn't rejected by the  
11 Commission in previous Commission decisions or that would cause Staff to modify its  
12 cost of capital recommendations.

13  
14 **CORRECTIONS**

15 **Q. Do you have any corrections to your direct testimony?**

16 A. Yes. Attached as LAJ-2 Surrebuttal is a corrected exhibit showing the calculation of rate  
17 base deductions related to the ICFA fees. Staff misread two of the ICFA contracts as  
18 applying only to WUGT when the contracts actually applied to both WUGT and HUC.  
19 The corrected exhibit reflects the correct calculation of the WUGT rate base adjustment  
20 from ICFA fees to be \$7,085,645 compared to \$9,022,750 on the exhibit in the direct  
21 testimony.

- 1   **Q.   Did you attempt to address every issue the Company raised in its rebuttal testimony?**
- 2   A.   No. Staff limited its discussion to the specific issue as outlined above. Staff's lack of
- 3       response to any issue in this proceeding should not be construed as agreement with the
- 4       Company's position in its rebuttal testimony; rather where there is no response, Staff
- 5       relies on its original direct testimony.
- 6
- 7   **Q.   Does this conclude your surrebuttal testimony?**
- 8   A.   Yes, it does.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
GLOBAL WATER – PALO VERDE UTILITIES )  
COMPANY FOR THE ESTABLISHMENT OF JUST )  
AND REASONABLE RATES AND CHARGES FOR )  
UTILITY SERVICE DESIGNED TO REALIZE A )  
REASONABLE RATE OF RETURN ON THE FAIR )  
VALUE OF ITS PROPERTY THROUGHOUT THE )  
STATE OF ARIZONA. )

DOCKET NO. SW-20445A-09-0077

IN THE MATTER OF THE APPLICATION OF )  
VALENCIA WATER COMPANY - GREATER )  
BUCKEYE DIVISION FOR THE ESTABLISHMENT )  
OF JUST AND REASONABLE RATES AND )  
CHARGES FOR UTILITY SERVICE DESIGNED TO )  
REALIZE A REASONABLE RATE OF RETURN ON )  
THE FAIR VALUE OF ITS PROPERTY )  
THROUGHOUT THE STATE OF ARIZONA. )

DOCKET NO. W-02451A-09-0078

IN THE MATTER OF THE APPLICATION OF )  
WILLOW VALLEY WATER COMPANY FOR THE )  
ESTABLISHMENT OF JUST AND REASONABLE )  
RATES AND CHARGES FOR UTILITY SERVICE )  
DESIGNED TO REASONABLE RATE )  
OF RETURN ON THE FAIR VALUE OF ITS )  
PROPERTY THROUGHOUT THE STATE OF )  
ARIZONA. )

DOCKET NO. W-01732A-09-0079

IN THE MATTER OF THE APPLICATION OF )  
GLOBAL WATER – SANTA CRUZ WATER COMPANY )  
COMPANY FOR THE ESTABLISHMENT OF JUST )  
AND REASONABLE RATES AND CHARGES FOR )  
UTILITY SERVICE DESIGNED TO REALIZE A )  
REASONABLE RATE OF RETURN ON THE FAIR )  
VALUE OF ITS PROPERTY THROUGHOUT THE )  
STATE OF ARIZONA. )

DOCKET NO. W-20446A-09-0080

IN THE MATTER OF THE APPLICATION OF )  
WATER UTILITY OF GREATER TONOPAH FOR )  
THE ESTABLISHMENT OF JUST AND )  
REASONABLE RATES AND CHARGES FOR )  
UTILITY SERVICE DESIGNED TO REALIZE A )  
REASONABLE RATE OF RETURN ON THE FAIR )  
VALUE OF ITS PROPERTY THROUGHOUT THE )  
STATE OF ARIZONA. )

DOCKET NO. W-02450A-09-0081

IN THE MATTER OF THE APPLICATION OF )  
VALENCIA WATER COMPANY – TOWN DIVISION )  
FOR THE ESTABLISHMENT OF JUST AND )  
REASONABLE RATES AND CHARGES FOR )  
UTILITY SERVICE DESIGNED TO REALIZE A )  
REASONABLE RATE OF RETURN ON THE FAIR )  
VALUE OF ITS PROPERTY THROUGHOUT )  
THE STATE OF ARIZONA. )

DOCKET NO. W-01212A-09-0082

SURREBUTTAL  
TESTIMONY  
OF  
CRYSTAL S. BROWN  
PUBLIC UTILITIES ANALYST V  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

DECEMBER 7, 2009

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## **EXECUTIVE SUMMARY**

**GLOBAL WATER – PALO VERDE UTILITIES COMPANY, DOCKET NO. SW-20445A-09-0077**  
**GLOBAL WATER – SANTA CRUZ WATER COMPANY, DOCKET NO. W-20446A-09-0080**  
**WILLOW VALLEY WATER COMPANY, DOCKET NO. W-01732A-09-0079**  
**VALENCIA WATER COMPANY – TOWN DIVISION, DOCKET NO. W-01212A-09-0082**  
**VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION, DOCKET NO. W-02451A-09-0078**  
**WATER UTILITY OF GREATER TONOPAH, DOCKET NO. W-02450A-09-0081**

Staff recommends the following for Global Water - Palo Verde Utilities Company ("Palo Verde"), Global Water – Santa Cruz Water Company ("Santa Cruz"), Willow Valley Water Company ("Willow Valley"), Valencia Water Company – Town Division ("Town Division"), Valencia Water Company – Greater Buckeye Division ("Buckeye"), and Water Utility of Greater Tonopah ("Tonopah"), collectively "Global Companies":

### *Palo Verde*

Staff recommends a \$6,118,237 or 92.09 percent revenue increase from \$6,643,813 to \$12,762,050. Staff's recommended revenue increase would produce an operating income of \$4,425,069 for an 8.30 percent rate of return on an OCRB of \$53,314,083.

### *Santa Cruz*

Staff recommends a \$1,576,527 or 16.75 percent revenue increase from \$9,409,861 to \$10,986,388. Staff's recommended revenue increase would produce an operating income of \$3,328,234 for an 8.50 percent rate of return on an OCRB of \$39,155,692.

### *Willow Valley*

Staff recommends a \$450,347 or 95.10 percent revenue increase from \$473,527 to \$923,874. Staff's recommended revenue increase would produce an operating income of \$184,595 for an 8.20 percent rate of return on an OCRB of \$2,251,164.

### *Town Division*

Staff recommends a \$1,516,475 or 49.93 percent revenue increase from \$3,037,462 to \$4,553,937. Staff's recommended revenue increase would produce an operating income of \$368,882 for an 8.70 percent rate of return on an OCRB of \$4,240,018.

### *Buckeye*

Staff recommends an \$83,708 or 22.00 percent revenue increase from \$380,474 to \$464,182. Staff's recommended revenue increase would produce an operating income of \$75,254 for an 8.10 percent rate of return on an OCRB of \$929,057.

*Tonopah*

Staff recommends a \$14,100 or 5.44 percent revenue decrease from \$259,304 to \$245,204. Staff's recommended revenue decrease would produce an operating margin of 10.00 percent or \$24,561. Staff's recommended OCRB is a negative \$4,186,150.

Staff's surrebuttal testimony responds to the Global Companies' rebuttal testimony on the following issues:

1. Rate Base
  - a. Contributions In Aid of Construction
2. Operating Income
  - a. Materials and Supplies, Acct. Nos. 620.08 and 720.08
  - b. Contract Services – Management Fees
  - c. Purchased Power
  - d. Depreciation Expense
  - e. Property Tax Expense
  - f. Income Tax Expense

**INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same Crystal S. Brown who filed direct testimony in this case?**

A. Yes.

**PURPOSE OF SURREBUTTAL TESTIMONY**

**Q. What is the purpose of your surrebuttal testimony in this proceeding?**

A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Mr. Jamie Moe who represents Global Water - Palo Verde Utilities Company ("Palo Verde"), Global Water - Santa Cruz Water Company ("Santa Cruz"), Willow Valley Water Company ("Willow Valley"), Valencia Water Company - Town Division ("Town Division"), Valencia Water Company - Greater Buckeye Division ("Buckeye"), and Water Utility of Greater Tonopah ("Tonopah"), collectively "Global Companies or Companies."

**Q. Did you attempt to address every issue raised by the Global Companies in its rebuttal testimony?**

A. No. I limited my discussion to certain issues as outlined below. My silence on any particular issue raised in the Companies rebuttal testimony does not indicate that I agree with the Companies stated rebuttal position on the issue. Rather, where I do not respond, I rely on my direct testimony.

1 **Q. What issues will you address?**

2 A. I will address the issues listed below that are discussed in the rebuttal testimony of the  
3 Global Companies' witness Mr. Jamie Moe.

4 1. Rate Base

5 a. Contributions In Aid of Construction

6 2. Operating Income

7 a. Materials and Supplies, Acct. Nos. 620.08 and 720.08

8 b. Contract Services – Management Fees

9 c. Purchased Power

10 d. Depreciation Expense

11 e. Property Tax Expense

12 f. Income Tax Expense

13  
14 **SUMMARY OF PROPOSED REVENUES**

15 **Q. Please summarize Staff's recommended revenue.**

16 A. Staff recommends an aggregate revenue requirement of \$29,935,635. This represents an  
17 increase over test-year revenue of \$9,731,194, or 48.16% percent. The amounts for each  
18 system are shown below.

19  
Summary of Staff-Recommended Annual Revenue by System

<u>System</u>	<u>Adjusted Test Year</u>	<u>Surrebuttal Position</u>	<u>\$ Change</u>	<u>% Change</u>
Palo Verde	\$ 6,643,813	\$12,762,050	\$6,118,237	92.09%
Santa Cruz	\$ 9,409,861	\$10,986,388	\$1,576,527	16.75%
Willow Valley	\$ 473,527	\$ 923,874	\$ 450,347	95.10%
Town Division	\$ 3,037,462	\$ 4,553,937	\$1,516,475	49.93%
Buckeye	\$ 380,474	\$ 464,182	\$ 83,708	22.00%
Tonopah	\$ 259,304	\$ 245,204	\$ (14,100)	-5.44%
Total / Overall	\$20,204,441	\$29,935,635	\$9,731,194	48.16%

**Q. How does Staff's recommended revenue compare to the recommended revenue in Staff's direct testimony?**

**A.** Staff's recommended revenue has increased in aggregate by \$1,227,377, from \$28,708,258 in its direct testimony to \$29,935,635 in its surrebuttal testimony as follows:

<b>Staff Recommended</b>	<b><u>Direct Testimony</u></b>	<b><u>Surrebuttal Testimony</u></b>	<b><u>\$ Increase</u></b>	<b><u>% Increase</u></b>
Palo Verde	\$12,088,712	\$12,762,050	\$ 673,338	5.57%
Santa Cruz	\$10,552,098	\$10,986,388	\$ 434,290	4.12%
Willow Valley	\$ 901,816	\$ 923,874	\$ 22,058	2.45%
Town Division	\$ 4,476,740	\$ 4,553,937	\$ 77,197	1.72%
Buckeye	\$ 452,732	\$ 464,182	\$ 11,450	2.53%
Tonopah	\$ 236,160	\$ 245,204	\$ 9,044	3.83%
Total / Overall	\$28,708,258	\$29,935,635	\$1,227,377	4.28%

The increase reflects the adjustments made in Staff's surrebuttal testimony. The above proposed and recommended revenue increases would apply to the customers of each of the Global Companies as discussed below:

*Palo Verde*

Staff recommends a \$6,118,237 or 92.09 percent revenue increase from \$6,643,813 to \$12,762,050. Staff's recommended revenue increase would produce an operating income of \$4,425,069 for an 8.30 percent rate of return on an OCRB of \$53,314,083.

*Santa Cruz*

Staff recommends a \$1,576,527 or 16.75 percent revenue increase from \$9,409,861 to \$10,986,388. Staff's recommended revenue increase would produce an operating income of \$3,328,234 for an 8.50 percent rate of return on an OCRB of \$39,155,692.

1 *Willow Valley*

2 Staff recommends a \$450,347 or 95.10 percent revenue increase from \$473,527 to  
3 \$923,874. Staff's recommended revenue increase would produce an operating income of  
4 \$184,595 for an 8.20 percent rate of return on an OCRB of \$2,251,164.

5  
6 *Town Division*

7 Staff recommends a \$1,516,475 or 49.93 percent revenue increase from \$3,037,462 to  
8 \$4,553,937. Staff's recommended revenue increase would produce an operating income  
9 of \$368,882 for an 8.70 percent rate of return on an OCRB of \$4,240,018.

10  
11 *Buckeye*

12 Staff recommends an \$83,708 or 22.00 percent revenue increase from \$380,474 to  
13 \$464,182. Staff's recommended revenue increase would produce an operating income of  
14 \$75,254 for an 8.10 percent rate of return on an OCRB of \$929,057.

15  
16 *Tonopah*

17 Staff recommends a \$14,100 or 5.44 percent revenue decrease from \$259,304 to \$245,204.  
18 Staff's recommended revenue decrease would produce an operating margin of 10.00  
19 percent or \$24,561. Staff's recommended OCRB is a negative \$4,186,150.

20  
21 **RATE BASE**

22 **Q. Please summarize Staff's adjustments to the Global Companies' rate bases shown on**  
23 **Surrebuttal Schedules CSB-3 and CSB-4 of their respective schedules.**

24 **A. A summary of the Global Companies' proposed and Staff's recommended rate bases**  
25 **follow:**



		RATE BASE	
	<u>Per Company</u>	<u>Staff's</u> <u>Adjustment</u>	<u>Surrebuttal</u> <u>Per Staff</u>
Palo Verde	\$ 63,637,830	(\$10,323,747)	\$53,314,083
Santa Cruz	\$ 45,260,919	(\$6,105,227)	\$39,155,692
Willow Valley	\$ 2,251,164	\$0	\$2,251,164
Town Division	\$ 4,240,018	\$0	\$4,240,018
Buckeye	\$ 929,057	\$0	\$ 929,057
Tonopah	\$ 2,598,259	(\$6,784,409)	(\$4,186,150)
Total	\$118,917,247	(\$23,213,383)	\$95,703,864

**Q. How does Staff's recommended rate base compare to the recommended rate base in Staff's direct testimony?**

**A.** Staff's recommended rate base has increased in aggregate by \$1,780,591 from \$93,923,273 in its direct testimony to \$95,703,864 in its surrebuttal testimony as follows:

	RATE BASE			
<u>Staff</u> <u>Recommended</u>	<u>Direct</u> <u>Testimony</u>	<u>Surrebuttal</u> <u>Testimony</u>	<u>\$ Change</u>	<u>% Change</u>
Palo Verde	\$53,470,597	\$53,314,083	(\$156,514)	-0.29%
Santa Cruz	\$39,155,692	\$39,155,692	\$0	0.00%
Willow Valley	\$ 2,251,164	\$2,251,164	\$0	0.00%
Town Division	\$ 4,240,018	\$4,240,018	\$0	0.00%
Buckeye	\$ 929,057	\$ 929,057	\$0	0.00%
Tonopah	\$(6,123,255)	(\$4,186,150)	\$1,937,105	-31.64%
Total / Overall	\$93,923,273	\$95,703,864	\$1,780,591	1.90%

The increase reflects the adjustments made in Staff's surrebuttal testimony.

#### **Rate Base Adjustment – Contributions In Aid of Construction ("CIAC")**

**Q. Did Staff make any changes to CIAC for Tonopah?**

**A.** Yes. Staff decreased the amount of its adjustment to CIAC by \$1,937,105, from \$9,022,750 in its direct testimony to \$7,085,645 as discussed in greater detail by Staff witness Linda Jaress.

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends \$7,158,763 in CIAC for Tonopah as shown on Surrebuttal Schedule  
3 CSB-4.

4  
5 **Rate Base Adjustment – Amortization of CIAC**

6 **Q. Did Staff review the Global Companies' rebuttal testimony concerning the**  
7 **amortization of CIAC for Palo Verde?**

8 A. Yes. The Global Companies state that Staff used the historic plant balances for Santa  
9 Cruz rather than Palo Verde in its calculation of the amortization of CIAC for Palo Verde.

10  
11 **Q. Does Staff agree?**

12 A. Yes. Staff has recalculated the amortization of CIAC for Palo Verde using the correct  
13 plant balances.

14  
15 **Q. How does this compare to Staff's direct testimony?**

16 A. Staff's adjustment represents a \$156,514 decrease in the amount of CIAC amortization,  
17 from \$823,895 in its direct testimony to \$667,381 in its surrebuttal testimony.

18  
19 **Q. What is Staff's recommendation?**

20 A. Staff recommends \$667,381 for the amortization of CIAC as shown on Surrebuttal  
21 Schedule CSB-6.

**Operating Income**

**Operating Income Adjustment – Materials and Supplies, Acct. Nos. 620.08 and 720.08**

**Q. Did Staff review the Global Companies' rebuttal testimony concerning the Materials and Supplies?**

A. Yes.

**Q. Does Staff agree that the actual test year balances should be reflected?**

A. Yes.

**Q. How does this compare to Staff's direct testimony?**

A. Staff's surrebuttal adjustment eliminates the adjustment to materials and supplies that Staff made in its direct testimony in order to reflect the actual test year amount. Staff's adjustment represents an aggregate \$496,737 increase in materials and supplies expense, from a negative \$496,737 in its direct testimony to \$0 in its surrebuttal testimony.

**Q. What is Staff's recommendation?**

A. Staff recommends the removal of its adjustment to Materials and Supplies, Acct. Nos. 620.08 and 720.08 for all Global Companies as follows:

MATERIAL AND SUPPLIES EXPENSE, ACCOUNT NOS. 620.08 & 720.08				
	Reference	<u>Direct Testimony Adjustment</u>	<u>Increase</u>	<u>Surrebuttal Testimony Adjustment</u>
Palo Verde	Sch CSB-8 & CSB-11	(\$ 196,867)	\$ 196,867	\$0
Santa Cruz	Sch CSB-8 & CSB-11	(\$ 191,860)	\$ 191,860	\$0
Willow Valley	Sch CSB-6 & CSB-8	(\$ 21,759)	\$ 21,759	\$0
Town Division	Sch CSB-6 & CSB-9	(\$ 69,726)	\$ 69,726	\$0
Buckeye	Sch CSB-6 & CSB-9	(\$ 10,466)	\$ 10,466	\$0
Tonopah	Sch CSB-8 & CSB-10	(\$ 6,059)	\$ 6,059	\$0
Total		(\$ 496,737)	\$ 496,737	\$0

**Operating Income Adjustment – Contractual Services, Management Fees**

**Q. Did Staff review the Global Companies' rebuttal testimony concerning the Management Fees account?**

A. Yes.

**Q. Does Staff agree?**

A. Yes.

**Q. How does Staff's adjustment compare to its direct testimony?**

A. Staff's adjustment represents an aggregate increase of \$11,386 in management fees expense, from a negative \$162,881 in its direct testimony to a negative \$151,495 in its surrebuttal testimony.

**Q. What is Staff's recommendation?**

A. Staff recommends adoption of the adjustments to Contractual Services, Management Fees for all Global Companies as proposed in the rebuttal testimony of Mr. Jamie Moe as follows:

CONTRACTUAL SERVICES – MANAGEMENT FEES				
	Reference:	Direct Testimony Adjustment	Increase	Surrebuttal Testimony Adjustment
Palo Verde	Schedules CSB-8 & CSB-12	(\$ 28,621)	\$1,905	(\$ 26,716)
Santa Cruz	Schedules CSB-8 & CSB-9	(\$ 38,353)	\$1,906	(\$ 36,447)
Willow Valley	Schedules CSB-6 & CSB-9	(\$ 21,372)	\$0	(\$ 21,372)
Town Division	Schedules CSB-6 & CSB-10	(\$ 61,633)	\$6,318	(\$ 55,315)
Buckeye	Schedules CSB-6 & CSB-10	(\$ 7,832)	\$816	(\$ 7,016)
Tonopah	Schedules CSB-8 & CSB-11	(\$ 5,070)	\$441	(\$ 4,629)
Total		(\$ 162,881)	\$11,386	(\$ 151,495)

**Operating Income Adjustment – Purchased Power**

**Q. Did Staff review the Global Companies' rebuttal testimony concerning Purchased Power?**

**A. Yes.**

**Q. Does Staff agree?**

**A. Yes.**

**Q. How does this adjustment compare to Staff's direct testimony?**

**A. The change is as follows:**

PURCHASED POWER – TONOPAH				
	Reference	<u>Direct Testimony Adjustment</u>	<u>Increase</u>	<u>Surrebuttal Testimony Adjustment</u>
Tonopah	Sch CSB-8 & CSB-12	(\$ 1,275)	\$ 903	(\$ 372)

**Q. What is Staff's recommendation?**

**A. Staff recommends decreasing purchased power by \$372 for Tonopah only. The adjustment is shown on Surrebuttal Schedules CSB-8 and CSB-12.**

**Operating Income Adjustment – Depreciation Expense**

**Q. Did Staff review the Global Companies' rebuttal testimony concerning Depreciation Expense?**

**A. Yes.**

**Q. Does Staff agree?**

**A. Yes.**

1 **Q. How does Staff's adjustment compare to its direct testimony?**

2 A. Staff's adjustment represents an aggregate \$709,752 increase in depreciation expense,  
3 from \$7,843,679 in its direct testimony to \$8,553,431 in its surrebuttal testimony.

4  
5 **Q. What is Staff's recommendation?**

6 A. Staff recommends increasing depreciation expense for Palo Verde, Santa Cruz and  
7 Tonopah as follows:

8

DEPRECIATION EXPENSE				
	Reference:	Direct Testimony	Increase	Surrebuttal Testimony
Palo Verde	Schedules CSB-8 & CSB-14	\$2,332,780	\$478,497	\$2,811,277
Santa Cruz	Schedules CSB-8 & CSB-14	\$3,011,636	\$231,255	\$3,242,891
Willow Valley	Schedule CSB-6	\$ 185,697	\$0	\$ 185,697
Town Division	Schedule CSB-6	\$2,199,986	\$0	\$2,199,986
Buckeye	Schedule CSB-6	\$ 113,580	\$0	\$ 113,580
Tonopah	Schedules CSB-8 & CSB-14	\$ 0	\$0	\$ 0
Total		\$7,843,679	\$709,752	\$8,553,431

9  
10 **Operating Income – Property Taxes**

11 **Q. Did Staff make any adjustment to the Property Tax Expense?**

12 A. Yes. Staff's adjustment reflects Staff's calculation of the property tax expense using  
13 Staff's recommended revenues as modified in this surrebuttal testimony.

14  
15 **Operating Income – Income Taxes**

16 **Q. Did Staff make any adjustments to Test Year Income Tax Expense?**

17 A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon  
18 Staff's adjusted test year taxable income as modified in this surrebuttal testimony.

- 1   **Q.    Does this conclude your surrebuttal testimony?**
- 2   **A.    Yes, it does.**

**REVENUE REQUIREMENT**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Adjusted Rate Base	\$ 63,637,830	\$ 53,314,083
2	Adjusted Operating Income (Loss)	\$ 144,516	\$ 748,584
3	Current Rate of Return (L2 / L1)	0.23%	1.40%
4	Required Rate of Return	8.34%	8.30%
5	Required Operating Income (L4 * L1)	\$ 5,307,395	\$ 4,425,069
6	Operating Income Deficiency (L5 - L2)	\$ 5,162,879	\$ 3,676,484
7	Gross Revenue Conversion Factor	1.64509	1.66415
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 8,493,380	\$ 6,118,237
9	Adjusted Test Year Revenue	\$ 6,521,201	\$ 6,643,813
10	Proposed Annual Revenue (L8 + L9)	\$ 15,014,581	\$ 12,762,050
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	130.24%	92.09%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1  
Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-7



**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.9094%			
5	Subtotal (L3 - L4)	60.0906%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.664154</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (CSB-15, Col. B, L 24)	2.1344%			
22	Effective Property Tax Factor (L20*L21)		1.3105%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.9094%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 4,425,069			
25	Adjusted Test Year Operating Income (Loss) (Sch CSB-7, Col C, L 33)	748,584			
26	Required Increase in Operating Income (L24 - L25)		\$ 3,676,484		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 1,809,815			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(501,351)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		2,311,166		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 12,762,050			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (CSB-15, Col B, L19)	\$ 610,846			
36	Property Tax on Test Year Revenue (CSB-15, Col A, L16)	480,259			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		130,587		
38	<b>Total Required Increase in Revenue (L26 + L29 + L34 + L37)</b>		<b>\$ 6,118,237</b>		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-11, Col. [C], Line 5 & Sch. CSB-1, Col. [D] Line 5)	\$ 6,643,813	\$ 6,118,237	\$ 12,762,050	
40	Operating Expenses Excluding Income Taxes	\$ 6,396,580	\$ 130,587	\$ 6,527,167	
41	Synchronized Interest (L56)	\$ 1,546,108		\$ 1,546,108	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (1,298,875)		\$ 4,688,775	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (90,506)		\$ 326,714	
45	Federal Taxable Income (L42 - L44)	\$ (1,208,370)		\$ 4,362,061	
46	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
47	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
48	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
49	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
50	Federal Tax on All Income (\$0-\$10,000,000) @ 34%	\$ (410,846)		\$ 1,483,101	
51	Total Federal Income Tax	\$ (410,846)		\$ 1,483,101	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (501,351)		\$ 1,809,815	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14)	\$ 53,314,083			
55	Weighted Average Cost of Debt	2.9000%			
56	Synchronized Interest (L45 X L46)	\$ 1,546,108			

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 100,264,747		\$ 100,264,747
2	Less: Accumulated Depreciation	(9,082,530)		(9,082,530)
3	Net Plant in Service	<u>\$ 91,182,217</u>		<u>\$ 91,182,217</u>
<u>LESS:</u>				
4	Advances in Aid of Construction (AIAC)	\$ 27,370,552		\$ 27,370,552
5	Service Line and Meter Advances	\$ -		\$ -
6	Contributions in Aid of Construction (CIAC)	\$ -	\$ 10,991,128 1	\$ 10,991,128
7	Less: Accumulated Amortization	-	667,381 2	667,381
8	Net CIAC	<u>\$ -</u>	<u>10,323,747</u>	<u>\$ 10,323,747</u>
9	Total Advances and Contributions	<u>\$ 27,370,552</u>	<u>\$ 10,323,747</u>	<u>\$ 37,694,299</u>
10	Customer Deposits	\$ 173,835	\$ -	\$ 173,835
11	Accumulated Deferred Income Taxes	\$ -	\$ -	\$ -
<u>ADD:</u>				
12	Deferred Tax Asset	\$ -	\$ -	\$ -
13	Working Capital	\$ -	\$ -	\$ -
14	<b>Total Rate Base</b>	<u>\$ 63,637,830</u>	<u>\$ (10,323,747)</u>	<u>\$ 53,314,083</u>

References:

Column [A], Company Schedule B-1, Page 1  
Column [B]: Schedule CSB-4  
Column [C]: Column [A] + Column [B]

**SUMMARY OF RATE BASE ADJUSTMENTS**

LINE NO.		[A]	[B]	[C]	[D]
	<u>PLANT IN SERVICE</u>		<u>Adj No. 1</u>	<u>ADJ No. 2</u>	
	Acct. No. Plant Description	COMPANY AS FILED	CIAC Ref: Sch CSB-5	Accumulated Amort of CIAC Ref: Sch CSB-6	STAFF AS ADJUSTED
1					
2	353 Land and Land Rights	\$ 186,009	\$ -	\$ -	\$ 186,009
3	354 Structures and Improvements	16,520,426	-	-	16,520,426
4	355 Power Generation Equipment	321,425	-	-	321,425
5	360 Collection Sewers - Force	3,857,656	-	-	3,857,656
6	361 Collection Sewers - Gravity	47,344,470	-	-	47,344,470
7	363 Services to Customers	5,205,784	-	-	5,205,784
8	364 Flow Measuring Devices	23,636	-	-	23,636
9	370 Receiving Wells	1,940,450	-	-	1,940,450
10	371 Pumping Equipment	3,878,776	-	-	3,878,776
11	374 Reuse Distribution Reservoirs	11,043	-	-	11,043
12	375 Reuse Transmission & Distribution System	10,912,763	-	-	10,912,763
13	380 Treatment and Disposal Equipment	5,440,808	-	-	5,440,808
14	381 Plant Sewers	78,384	-	-	78,384
15	382 Outfall Sewers	353,645	-	-	353,645
16	389 Other Plant and Miscellaneous Equipment	2,271,644	-	-	2,271,644
17	390 Office Furniture and Equipment	138,995	-	-	138,995
18	391 Transportation Equipment	165,404	-	-	165,404
19	393 Tools, Shop, and Garage Equipment	100,819	-	-	100,819
20	394 Laboratory Equipment	36,073	-	-	36,073
21	395 Power Operated Equipment	10,320	-	-	10,320
22	396 Communication Equipment	38,289	-	-	38,289
23	397 Miscellaneous Equipment	359,170	-	-	359,170
24	398 Other Tangible Equipment	1,068,758	-	-	1,068,758
25	Total Plant in Service - Actual	\$ 100,264,747	\$ -	\$ -	\$ 100,264,747
26	Less: Accumulated Depreciation	\$ (9,082,530)	\$ -	\$ -	\$ (9,082,530)
27	Net Plant in Service	\$ 91,182,217	\$ -	\$ -	\$ 91,182,217
28					
29	<u>LESS:</u>				
30	Advances in Aid of Construction (AIAC)	\$ 27,370,552	\$ -	\$ -	\$ 27,370,552
31	Service Line and Meter Advances	\$ -	-	-	\$ -
32					
33	Contributions in Aid of Construction (CIAC)	\$ -	-	-	\$ -
34	CIAC/ICFAS - Plant	-	10,991,128	-	10,991,128
35	CIAC/ICFAS - Other	-	-	-	-
36	Total CIAC - Adjusted	\$ -	\$ 10,991,128	\$ -	\$ 10,991,128
37					
38	Less: Accumulated Amortization of CIAC	\$ -	-	-	\$ -
39	Accum Amort of CIAC / ICFAs - Plant	-	-	667,381	667,381
40	Total Accumulated Amortization of CIAC	\$ -	\$ -	\$ 667,381	\$ 667,381
41					
42	Net CIAC	\$ -	10,991,128	(667,381)	\$ 10,323,747
43					
44	Total Advances and Net Contributions	\$ 27,370,552	\$ 10,991,128	\$ (667,381)	\$ 37,694,299
45					
46	Customer Deposits	\$ 173,835	-	-	\$ 173,835
47	Accumulated Deferred Taxes	\$ -	-	-	\$ -
48					
49	<u>ADD:</u>				
50	Deferred Tax Asset	\$ -	-	-	\$ -
51	Working Capital Allowance	\$ -	-	-	\$ -
52	Total Rate Base	\$ 63,637,830	\$ (10,991,128)	\$ 667,381	\$ 53,314,083

Global Water - Palo Verde Utilities Company  
Docket No. SW-20445A-09-0077  
Test Year Ended December 31, 2008

Surrebttal Schedule CSB-5

**RATE BASE ADJUSTMENT NO. 1 - CONTRIBUTION IN AID OF CONSTRUCTION, ICFAS**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	CIAC/ICFAS - Plant	\$ -	10,991,128	\$ 10,991,128

References:

Column [A]: Company Schedule B-2  
Column [B]: Testimony, CSB  
Column [C]: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED AMORTIZATION OF CIAC/ ICFA**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Accumulated Amortization of CIAC/ICFA	\$	-	\$	667,381	\$	667,381
2							
3							
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Amortization  
Calculation

2004 Beginning CIAC/ICFA Balance \$ -  
CIAC/ICFA Amort Rate 1.85% From Page 2, Line 18, Col F  
2004 Amort on Beginning Balance -

2004 CIAC/ICFA Addition \$ 2,198,226 \$10,991,128 / 5 years  
CIAC/ICFA Amort Rate (Half Year Convention) 0.92% From Page 2, Line 18, Col F, divided by 2  
2004 Amort on CIAC/ICFA Addition 20,224

2004 Ending Accu Amort of CIAC Balance \$ 20,224 Line 8 + Line 12

2005 Beginning CIAC/ICFA Balance \$ 2,198,226 Line 8 + Line 10  
CIAC/ICFA Amort Rate 1.32% From Page 2, Line 19, Col F  
2005 Amort on Beginning Balance 29,017

2005 CIAC/ICFA Addition \$ 2,198,226 \$10,991,128 / 5 years  
CIAC/ICFA Amort Rate (Half Year Convention) 0.66% From Page 2, Line 19, Col F, divided by 2  
2005 Amort on CIAC/ICFA Addition 14,508

2005 Ending Accu Amort of CIAC Balance \$ 43,525 Line 18 + Line 22

2006 Beginning CIAC/ICFA Balance \$ 4,396,451 Line 16 + Line 20  
CIAC/ICFA Amort Rate 2.14% From Page 2, Line 20, Col F  
2006 Amort on Beginning Balance 94,084

2006 CIAC/ICFA Addition \$ 2,198,226 \$10,991,128 / 5 years  
CIAC/ICFA Amort Rate (Half Year Convention) 1.07% From Page 2, Line 20, Col F, divided by 2  
2006 Amort on CIAC/ICFA Addition 23,521

2006 Ending Accu Amort of CIAC Balance \$ 117,605 Line 28 + Line 32

2007 Beginning CIAC/ICFA Balance \$ 6,594,677 Line 26 + Line 30  
CIAC/ICFA Amort Rate 2.75% From Page 2, Line 21, Col F  
2007 Amort on Beginning Balance 181,354

2007 CIAC/ICFA Addition \$ 2,198,226 \$10,991,128 / 5 years  
CIAC/ICFA Amort Rate (Half Year Convention) 1.37% From Page 2, Line 21, Col F, divided by 2  
2007 Amort on CIAC/ICFA Addition 30,116

2007 Ending Accu Amort of CIAC Balance \$ 329,074

Continued On Next Page

**RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED AMORTIZATION OF CIAC/ ICFA  
CONTINUED**

**Amortization  
Calculation**

2008 Beginning CIAC/ICFA Balance \$ 8,792,902 From Page 1, Line 36 + Line 40  
CIAC/ICFA Amort Rate 3.42% From Line 22, Col F  
2008 Amort on Beginning Balance 300,717

2008 CIAC/ICFA Addition \$ 2,198,226 Col E Line 45 - Col E Line 44  
CIAC/ICFA Amort Rate (Half Year Convention) 1.71% From Line 22, Col F, divided by 2  
2008 Amort on CIAC/ICFA Addition 37,590

2008 Ending Accu Amort of CIAC Balance \$ 667,381 Page 1, L 44 + Page 2, L 3, + Page 2, L 7

[A]	[B]	[C]	[D]	[E]	[F]
Calculation of CIAC/ICFA Amortization Rate					
Year	Palo Verde Gross Plant <sup>1</sup>	Palo Verde Land & Land Rights <sup>1</sup>	Depreciable Plant <sup>1</sup> Col B - Col C	Palo Verde Depreciation Expense <sup>1</sup>	CIAC Amortization Rate Col E / Col D
2004	\$ 15,403,361	\$ 164,670	\$ 15,238,691	\$ 281,430	1.85%
2005	\$ 41,723,984	\$ 164,670	\$ 41,559,314	\$ 547,074	1.32%
2006	\$ 55,607,997	\$ 186,009	\$ 55,421,988	\$ 1,183,943	2.14%
2007	\$ 86,596,223	\$ 186,009	\$ 86,410,214	\$ 2,373,028	2.75%
2008	\$ 100,264,747	\$ 44,856	\$ 100,219,891	\$ 3,430,845	3.42%

<sup>1</sup> From Company provided Plant Additions, Retirements, and Accum Depreciation Schedule

**OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED**

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<b>REVENUES:</b>							
1	Flat Rate Revenues	\$ 6,009,748	\$ 122,612	1	\$ 6,132,360	\$ 6,118,237	\$ 12,250,597
2	Other Wastewater Revenues	339,704	-		339,704		339,704
3	Measured Reuse Revenues	171,749	-		171,749	-	171,749
4	<b>Total Revenues</b>	<b>\$ 6,521,201</b>	<b>\$ 122,612</b>		<b>\$ 6,643,813</b>	<b>\$ 6,118,237</b>	<b>\$ 12,762,050</b>
<b>EXPENSES:</b>							
7	Salaries and Wages - Employees	\$ 924,853	\$ (924,853)	2	\$ -	\$ -	\$ -
8	Employee Pensions and Benefits	215,792	(215,792)	2	-	-	-
9	Purchased Power	595,157	6,639	1	601,796	-	601,796
10	Fuel for Power Production	7,004	-		7,004	-	7,004
11	Chemicals	157,134	2,877	1	160,011	-	160,011
12	Materials and Supplies - Acct No. 720	263,301	-		263,301	-	263,301
13	Materials and Supplies - Acct No. 720.08	295,301	-	3	295,301	-	295,301
14	Contractual Services - Management Fees	-	1,113,930	2,4	1,113,930	-	1,113,930
15	Contractual Services - Testing	99,923	-		99,923	-	99,923
16	Contractual Services - Other	183,283	-		183,283	-	183,283
17	Rental of Building/Real Property	93,111	-		93,111	-	93,111
18	Rental of Equipment	20,469	-		20,469	-	20,469
19	Transportation Expense	35,559	-		35,559	-	35,559
20	Insurance - General Liability	52,375	-		52,375	-	52,375
21	Insurance - Other	4,320	-		4,320	-	4,320
22	Advertising Expense	-	-		-	-	-
23	Rate Case Expense	53,333	-		53,333	-	53,333
24	Bad Debt Expense	65,212	(6,919)	5	58,293	-	58,293
25	Miscellaneous Expense	56,965	-		56,965	-	56,965
26	Depreciation Expense	3,156,675	(345,398)	6	2,811,277	-	2,811,277
27	Taxes Other Than Income-Utility Regulatory	1,256	-		1,256	-	1,256
28	Taxes Other Than Income-Property Taxes	-	480,259	7	480,259	130,587	610,846
29	Taxes Other Than Income-Other	4,814	-		4,814	-	4,814
30	Income Taxes	90,848	(592,199)	8	(501,351)	2,311,166	1,809,815
31	<b>Total Operating Expenses</b>	<b>\$ 6,376,685</b>	<b>\$ (481,456)</b>		<b>\$ 5,895,229</b>	<b>\$ 2,441,753</b>	<b>\$ 8,336,981</b>
32							
33	<b>Operating Income (Loss)</b>	<b>\$ 144,516</b>	<b>\$ 604,068</b>		<b>\$ 748,584</b>	<b>\$ 3,676,484</b>	<b>\$ 4,425,069</b>

**References:**

Column (A): Company Schedule C-1, Page 2  
Column (B): Schedule CSB-8  
Column (C): Column (A) + Column (B)  
Column (D): Schedules CSB-1 and CSB-2  
Column (E): Column (C) + Column (D)

## SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Revenue and Expense Annualization Ref. Sch CSB-9	[C] ADJ #2 Salaries, Wages, Pensions, & Benefits Ref. Sch CSB-10	[D] ADJ #3 Materials & Supplies Acct No. 720.08 Ref. Sch CSB-11	[E] ADJ #4 Contract Svcs Management Fees Ref. Sch CSB-12	[F] ADJ #5 Bad Debt Expense Ref. Sch CSB-13	[G] ADJ #6 Depreciation Expense Ref. Sch CSB-14	[H] ADJ #7 Property Taxes Ref. Sch CSB-15	[I] ADJ #8 Income Taxes Ref. Sch CSB-16	[J] STAFF ADJUSTED
1	521	Flat Rate Revenues	\$ 6,009,748	\$ 122,612	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,132,360
2	536	Other Wastewater Revenues	339,704	-	-	-	-	-	-	-	-	339,704
3	541	Measured Reuse Revenues	171,749	-	-	-	-	-	-	-	-	171,749
4		Total Revenues	\$ 6,521,201	\$ 122,612	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,643,813
5												
6		OPERATING EXPENSES:										
7	701	Salaries and Wages - Employees	\$ 924,853	-	(924,853)	-	-	-	-	-	-	-
8	704	Employee Pensions and Benefits	215,792	-	(215,792)	-	-	-	-	-	-	-
10	715	Purchased Power	595,157	6,639	-	-	-	-	-	-	-	601,796
11	716	Fuel for Power Production	7,004	-	-	-	-	-	-	-	-	7,004
12	718	Chemicals	157,134	2,877	-	-	-	-	-	-	-	160,011
13	720	Materials and Supplies	263,301	-	-	-	-	-	-	-	-	263,301
14	720.08	Materials and Supplies	295,301	-	-	-	-	-	-	-	-	295,301
15	734	Contractual Services - Management Fees	-	-	1,140,645	-	(26,716)	-	-	-	-	1,113,930
16	735	Contractual Services - Testing	99,923	-	-	-	-	-	-	-	-	99,923
17	736	Contractual Services - Other	183,283	-	-	-	-	-	-	-	-	183,283
18	741	Rental of Building/Real Property	93,111	-	-	-	-	-	-	-	-	93,111
19	742	Rental of Equipment	20,469	-	-	-	-	-	-	-	-	20,469
20	650	Transportation Expense	35,559	-	-	-	-	-	-	-	-	35,559
21	757	Insurance - General Liability	52,375	-	-	-	-	-	-	-	-	52,375
22	759	Insurance - Other	4,320	-	-	-	-	-	-	-	-	4,320
23	760	Advertising Expense	-	-	-	-	-	-	-	-	-	-
24	767	Rate Case Expense	53,333	-	-	-	-	-	-	-	-	53,333
25	770	Bad Debt Expense	65,212	-	-	-	-	(6,919)	-	-	-	58,293
26	775	Miscellaneous Expense	56,965	-	-	-	-	-	-	-	-	56,965
27	403	Depreciation Expense	3,156,675	-	-	-	-	-	(345,398)	-	-	2,811,277
28	408.10	Taxes Other Than Income-Utility Regulator	1,256	-	-	-	-	-	-	-	-	1,256
29	408.11	Taxes Other Than Income-Property Taxes	-	-	-	-	-	-	-	-	-	-
30	408.13	Taxes Other Than Income-Other	-	-	-	-	-	-	-	480,259	-	480,259
31	409	Income Taxes	4,814	-	-	-	-	-	-	-	-	4,814
32		Total Operating Expenses	\$ 6,376,685	\$ 9,516	\$ -	\$ -	\$ (26,716)	\$ (6,919)	\$ (345,398)	\$ 480,259	\$ (592,199)	\$ (501,351)
33												
34		Operating Income (Loss)	\$ 144,516	\$ 113,096	\$ -	\$ -	\$ 26,716	\$ 6,919	\$ 345,398	\$ (480,259)	\$ 592,199	\$ 748,584



**OPERATING INCOME ADJUSTMENT NO. 1 - REVENUE AND EXPENSE ANNUALIZATION**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Metered Water Sales - Actual	\$	6,093,851	\$	-	\$	6,093,851
2	Unbilled Revenue		38,508		-		38,508
3	Revenue Annualization to Metered Water Sales		(122,612)		122,612		-
4	Total	\$	6,009,747	\$	122,612	\$	6,132,359
5							
6	Purchased Pumping Power - Actual	\$	534,930	\$	-	\$	534,930
7	Electrical District No. 3 Rate Increase		66,866		-		66,866
8	Annualization Adjustment to Pumping Power		(6,639)		6,639		-
9		\$	595,157	\$	6,639	\$	601,796
10							
11	Chemicals - Actual	\$	160,011	\$	-	\$	160,011
12	Annualization Adjustment to Chemicals		(2,877)	\$	2,877		
13		\$	157,134	\$	2,877	\$	160,011
14							
15	Operating Income	\$	5,257,456	\$	113,096	\$	5,370,552

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 2 - SALARIES, WAGES, PENSIONS, & BENEFITS**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Salaries and Wage Expense	\$	924,853	\$	(924,853)	\$	-
2	Pension and Benefits		215,792	\$	(215,792)	\$	-
3		\$	1,140,645	\$	(1,140,645)	\$	-
4							
5	Contractual Services - Management Fees	\$	-	\$	1,140,645	\$	1,140,645

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 3 - MATERIALS AND SUPPLIES, ACCT NO. 720.08**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Materials and Supplies, Acct No 720.08	295,301	\$ -	\$ 295,301

Materials and Supplies Acct No. 720.08		
2006	\$ -	Company Sch E-2
2007	\$ -	Company Sch E-2
2008	\$ 295,301	Company Sch E-2
	<u>\$ 295,301</u>	
Divided by 3	<u>3</u>	
	\$ 98,434	

References:

Column A: Company Schedule C-1 & E-2  
Column B: Testimony, CSB; Data Request CSB 15-1  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACTUAL SERVICES, MANAGEMENT FEES**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Contractual Services - Management Fees	\$	-	\$	(26,716)	\$	(26,716)
2							
3							
4							
5	Bonuses (Indirect Allocation)	\$	-		Data Request Response CSB 2-28		
6	Bonuses (Direct Allocation)		5,213		From Trial Balance		
7	Kitchen Supplies		2,701		From Trial Balance		
8		\$	7,914				
9							
10							
11	Employee Moving & Hiring	\$	4,240		From Trial Balance		
12	Employee Training & Certification		8,343		From Trial Balance		
13	Employee Travel		23,170		From Trial Balance		
14	Employee Meals		1,850		From Trial Balance		
15			37,603				
16	Divided by 2 years		2				
17		\$	18,802				
18							
19	Total (Line 8 + Line 17)	\$	26,716				

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

Global Water - Palo Verde Utilities Company  
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Surrebuttal Schedule CSB-13

**OPERATING INCOME ADJUSTMENT NO. 5 - BAD DEBT EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense	65,212	(6,919)	58,293

References:

Column A: Company Data Request Response CSB 1.26 & RUCO 2.04(e)  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	353 Land and Land Rights	\$ 186,009	\$ (186,009)	\$ 372,018	0.00%	\$ -
2	354 Structures and Improvements	16,520,426	-	16,520,426	3.33%	550,130
3	355 Power Generation Equipment	321,425	-	321,425	5.00%	16,071
4	360 Collection Sewers - Force	3,857,656	-	3,857,656	2.00%	77,153
5	361 Collection Sewers - Gravity	47,344,470	-	47,344,470	2.00%	946,889
6	363 Services to Customers	5,205,784	-	5,205,784	2.00%	104,116
7	364 Flow Measuring Devices	23,636	-	23,636	10.00%	2,364
8	370 Receiving Wells	1,940,450	-	1,940,450	3.33%	64,617
9	371 Pumping Equipment	3,878,776	-	3,878,776	12.50%	484,847
10	374 Reuse Distribution Reservoirs	11,043	-	11,043	2.50%	276
11	375 Reuse Transmission & Distribution System	10,912,763	-	10,912,763	2.50%	272,819
12	380 Treatment and Disposal Equipment	5,440,808	-	5,440,808	5.00%	272,040
13	381 Plant Sewers	78,384	-	78,384	5.00%	3,919
14	382 Outfall Sewers	353,645	-	353,645	3.33%	11,776
15	389 Other Plant and Miscellaneous Equipment	2,271,644	-	2,271,644	6.67%	151,519
16	390 Office Furniture and Equipment	138,995	-	138,995	6.67%	9,271
17	391 Transportation Equipment	165,404	-	165,404	20.00%	33,081
18	393 Tools, Shop, and Garage Equipment	100,819	-	100,819	5.00%	5,041
19	394 Laboratory Equipment	36,073	-	36,073	10.00%	3,607
20	395 Power Operated Equipment	10,320	-	10,320	5.00%	516
21	396 Communication Equipment	38,289	-	38,289	10.00%	3,829
22	397 Miscellaneous Equipment	359,170	-	359,170	10.00%	35,917
23	398 Other Tangible Equipment	1,068,758	-	1,068,758	10.00%	106,876
24	Total Plant	\$ 100,264,747	\$ -	\$ 100,450,756		\$ 3,156,675
25						
29						
30						
31						
32	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.14%				
33	CIAC:	\$ 10,991,128				
34	Amortization of CIAC (Line 32 x Line 33):	\$ 345,397				
35						
36						
37	Depreciation Expense Before Amortization of CIAC:	\$ 3,156,675				
38	Less Amortization of CIAC:	\$ 345,397				
39	Test Year Depreciation Expense - Staff:	\$ 2,811,277				
40	Depreciation Expense - Company:	3,156,675				
41	Staff's Total Adjustment:	\$ (345,398)				

References:

Column [A]: Schedule CSB-4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

Global Water - Palo Verde Utilities Company  
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Surrebuttal Schedule CSB-15

**OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE**

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 6,643,813	\$ 6,643,813
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	13,287,626	\$ 13,287,626
4	Staff Recommended Revenue, Per Schedule CSB-1	6,643,813	\$ 12,762,050
5	Subtotal (Line 4 + Line 5)	19,931,439	26,049,676
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	6,643,813	\$ 8,683,225
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	13,287,626	\$ 17,366,451
10	Plus: 10% of CWIP -	1,778,334	1,778,334
11	Less: Net Book Value of Licensed Vehicles	65,257	\$ 65,257
12	Full Cash Value (Line 9 + Line 10 - Line 11)	15,000,703	\$ 19,079,528
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	3,150,148	\$ 4,006,701
15	Composite Property Tax Rate	15.2456%	15.2456%
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 480,259	
17	Company Proposed Property Tax	-	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 480,259	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 610,846
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 480,259
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 130,587
22	Increase to Property Tax Expense		\$ 130,587
23	Increase in Revenue Requirement		6,118,237
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		2.134384%

Global Water - Palo Verde Utilities Company  
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Surrebuttal Schedule CSB-16

**OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Tax Expense - Test Year	90,848	(592,199)	(501,351)

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]



**REVENUE REQUIREMENT**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Adjusted Rate Base	\$ 45,260,919	\$ 39,155,692
2	Adjusted Operating Income (Loss)	\$ 1,969,624	\$ 2,380,889
3	Current Rate of Return (L2 / L1)	4.35%	6.08%
4	Required Rate of Return	8.49%	8.50%
5	Required Operating Income (L4 * L1)	\$ 3,842,652	\$ 3,328,234
6	Operating Income Deficiency (L5 - L2)	\$ 1,873,028	\$ 947,344
7	Gross Revenue Conversion Factor	1.64509	1.66415
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 3,081,292	\$ 1,576,527
9	Adjusted Test Year Revenue	\$ 9,110,720	\$ 9,409,861
10	Proposed Annual Revenue (L8 + L9)	\$ 12,192,012	\$ 10,986,388
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	33.82%	16.75%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1  
Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-7

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.9094%			
5	Subtotal (L3 - L4)	60.0906%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.664154</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (CSB-15, Col B, L24)	2.1344%			
22	Effective Property Tax Factor (L20*L21)		1.3105%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.9094%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 3,328,234			
25	Adjusted Test Year Operating Income (Loss) (Sch CSB-7, Col C, Line 34)	2,380,889			
26	Required Increase in Operating Income (L24 - L25)		\$ 947,344		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 1,378,419			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	782,886			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		595,534		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 10,986,388			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (CSB-15, Col B, L19)	\$ 708,070			
36	Property Tax on Test Year Revenue (CSB-15, Col A, L16)	674,421			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		33,649		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 1,576,527		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-11, Col. [C], Line 5 & Sch. CSB-1, Col. [D] Line	Test Year \$ 9,409,861	Staff Recommended \$ 10,986,388		
40	Operating Expenses Excluding Income Taxes	\$ 6,246,086	\$ 6,279,735		
41	Synchronized Interest (L56)	\$ 1,135,515	\$ 1,135,515		
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 2,028,260	\$ 3,571,138		
43	Arizona State Income Tax Rate	6.9680%	6.9680%		
44	Arizona Income Tax (L42 x L43)	\$ 141,329	\$ 248,837		
45	Federal Taxable Income (L42 - L44)	\$ 1,886,931	\$ 3,322,301		
46	Federal Tax on Income Bracket - Not Used	\$ -	\$ -		
47	Federal Tax on Income Bracket - Not Used	\$ -	\$ -		
48	Federal Tax on Income Bracket - Not Used	\$ -	\$ -		
49	Federal Tax on Income Bracket - Not Used	\$ -	\$ -		
50	Federal Tax on All Income (\$0 - \$10,000,000) @ 34%	\$ 641,556	\$ 1,129,582		
51	Total Federal Income Tax	\$ 641,556	\$ 1,129,582		
52	Combined Federal and State Income Tax (L44 + L51)	\$ 782,886	\$ 1,378,419		
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14	\$ 39,155,692			
55	Weighted Average Cost of Debt	2.9000%			
56	Synchronized Interest (L45 X L46)	\$ 1,135,515			

**RATE BASE - ORIGINAL COST**

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 87,753,403	\$ -		\$ 87,753,403
2	Less: Accumulated Depreciation	(8,092,185)	-		(8,092,185)
3	Net Plant in Service	<u>\$ 79,661,218</u>	<u>\$ -</u>		<u>\$ 79,661,218</u>
<u>LESS:</u>					
4	Advances in Aid of Construction (AIAC)	\$ 33,770,450	\$ -		\$ 33,770,450
5	Service Line and Meter Advances	\$ -	\$ -		\$ -
6	Contributions in Aid of Construction (CIAC)	\$ -	\$ 6,600,076	1	\$ 6,600,076
7	Less: Accumulated Amortization	-	494,849	2	494,849
8	Net CIAC	<u>\$ -</u>	<u>6,105,227</u>		<u>\$ 6,105,227</u>
9	Total Advances and Contributions	\$ 33,770,450	\$ 6,105,227		\$ 39,875,677
10	Customer Deposits	\$ 1,136,087	\$ -		\$ 1,136,087
11	Accumulated Deferred Income Taxes	\$ -	\$ -		\$ -
<u>ADD:</u>					
12	Deferred Tax Asset	\$ 506,238	\$ -		\$ 506,238
13	Working Capital	\$ -	\$ -		\$ -
14	<b>Total Rate Base</b>	<u>\$ 45,260,919</u>	<u>\$ (6,105,227)</u>		<u>\$ 39,155,692</u>

References:

Column [A], Company Schedule B-1, Page 1  
Column [B]: Schedule CSB-4  
Column [C]: Column [A] + Column [B]

**SUMMARY OF RATE BASE ADJUSTMENTS**

LINE NO.	PLANT IN SERVICE	[A]		[B] Adj No. 1		[C] ADJ No. 2		[D]	
		COMPANY		CIAC		Accumulated Amort of CIAC		STAFF AS	
	Acct. No. Plant Description	AS FILED		Ref. Sch CSB-5		Ref. Sch CSB-6		ADJUSTED	
1									
2	303 Land and Land Rights	\$ 44,856		\$ -		\$ -		\$ 44,856	
3	304 Structures and Improvements	9,447,338		-		-		9,447,338	
4	306 Lake, River, and Other Intakes	1,855		-		-		1,855	
5	307 Wells and Springs	3,694,926		-		-		3,694,926	
6	309 Supply Mains	2,086,246		-		-		2,086,246	
7	310 Power Generation Equipment	323,093		-		-		323,093	
8	311 Pumping Equipment	6,353,511		-		-		6,353,511	
9	320 Water Treatment Equipment	12,554		-		-		12,554	
10	330 Distribution Reservoirs and Standpipes	1,367,063		-		-		1,367,063	
11	331 Transmission and Distribution Mains	44,443,414		-		-		44,443,414	
12	333 Services	4,598,396		-		-		4,598,396	
13	334 Meters and Meter Installations	3,553,579		-		-		3,553,579	
14	335 Hydrants	4,340,566		-		-		4,340,566	
15	336 Backflow Prevention Devices	26,572		-		-		26,572	
16	339 Other Plant and Miscellaneous Equipment	695,109		-		-		695,109	
17	340 Office Furniture and Equipment	504,424		-		-		504,424	
18	341 Transportation Equipment	596,576		-		-		596,576	
19	343 Tools, Shop, and Garage Equipment	65,276		-		-		65,276	
20	344 Laboratory Equipment	107,172		-		-		107,172	
21	345 Power Operated Equipment	60,372		-		-		60,372	
22	346 Communication Equipment	565,936		-		-		565,936	
23	347 Miscellaneous Equipment	80,859		-		-		80,859	
24	348 Other Tangible Equipment	4,783,710		-		-		4,783,710	
25	Total Plant in Service - Actual	\$ 87,753,403	\$	-	\$	-	\$	87,753,403	
26	Less: Accumulated Depreciation	\$ (8,092,185)	\$	-	\$	-		(8,092,185)	
27	Net Plant in Service	\$ 79,661,218	\$	-	\$	-	\$	79,661,218	
28									
29	<u>LESS:</u>								
30	Advances in Aid of Construction (AIAC)	\$ 33,770,450	\$	-	\$	-	\$	33,770,450	
31	Service Line and Meter Advances	\$ -		-		-	\$	-	
32									
33	Contributions in Aid of Construction (CIAC)	\$ -		-		-	\$	-	
34	CIAC/ICFAS - Plant	-		6,600,076		-		6,600,076	
35	CIAC/ICFAS - Other	-		-		-		-	
36	Total CIAC - Adjusted	\$ -	\$	6,600,076	\$	-	\$	6,600,076	
37									
38	Less: Accumulated Amortization of CIAC	\$ -		-		-	\$	-	
39	Accum Amort of CIAC / ICFAs - Plant	-		-		494,849		494,849	
40	Total Accumulated Amortization of CIAC	\$ -	\$	-	\$	494,849	\$	494,849	
41									
42	Net CIAC	\$ -		6,600,076		(494,849)	\$	6,105,227	
43									
44	Total Advances and Net Contributions	\$ 33,770,450	\$	6,600,076	\$	(494,849)	\$	39,875,677	
45									
46	Customer Deposits	\$ 1,136,087		-		-	\$	1,136,087	
47	Accumulated Deferred Taxes	\$ -		-		-	\$	-	
48									
49	<u>ADD:</u>								
50	Deferred Tax Asset	\$ 506,238		-		-	\$	506,238	
51	Working Capital Allowance	\$ -		-		-	\$	-	
52	Total Rate Base	\$ 45,260,919	\$	(6,600,076)	\$	494,849	\$	39,155,692	

Santa Cruz Water Company  
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Surrebuttal Schedule CSB-5

**RATE BASE ADJUSTMENT NO. 1 - CONTRIBUTION IN AID OF CONSTRUCTION, ICFAS**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	CIAC/ICFAS - Plant	\$ -	6,600,076	\$ 6,600,076

References:

Column [A]: Company Schedule B-2

Column [B]: Testimony, CSB

Column [C]: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED AMORTIZATION OF CIAC/ ICFA**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Amortization of CIAC/ICFA	\$ -	\$ 494,849	\$ 494,849
2				
3				
4				
5				
6	2004 Beginning CIAC/ICFA Balance	\$ -		
7	CIAC/ICFA Amort Rate		2.83%	From Page 2, Line 18, Col F
8	2004 Amort on Beginning Balance		-	
9				
10	2004 CIAC/ICFA Addition	\$ 1,320,015	\$ 6,600,076 / 5 years	
11	CIAC/ICFA Amort Rate (Half Year Convention)		1.41%	From Page 2, Line 18, Col F, divided by 2
12	2004 Amort on CIAC/ICFA Addition		18,612	
13				
14	2004 Ending Accu Amort of CIAC Balance	\$ 18,612	Line 8 + Line 12	
15				
16	2005 Beginning CIAC/ICFA Balance	\$ 1,320,015	\$ 6,600,076 / 5 years	
17	CIAC/ICFA Amort Rate		2.88%	From Page 2, Line 19, Col F
18	2005 Amort on Beginning Balance		38,077.93	
19				
20	2005 CIAC/ICFA Addition	\$ 1,320,015	\$ 6,600,076 / 5 years	
21	CIAC/ICFA Amort Rate (Half Year Convention)		1.44%	From Page 2, Line 19, Col F, divided by 2
22	2005 Amort on CIAC/ICFA Addition		19,008	
23				
24	2005 Ending Accu Amort of CIAC Balance	\$ 57,086	Line 18 + Line 22	
25				
26	2006 Beginning CIAC/ICFA Balance	\$ 2,640,030		
27	CIAC/ICFA Amort Rate		3.50%	From Page 2, Line 20, Col F
28	2006 Amort on Beginning Balance		92,508.66	
29				
30	2006 CIAC/ICFA Addition	\$ 1,320,015	\$ 6,600,076 / 5 years	
31	CIAC/ICFA Amort Rate (Half Year Convention)		1.75%	From Page 2, Line 20, Col F, divided by 2
32	2006 Amort on CIAC/ICFA Addition		23,100	
33				
34	2006 Ending Accu Amort of CIAC Balance	\$ 115,609	Line 28 + Line 32	
35				
36	2007 Beginning CIAC/ICFA Balance	\$ 3,960,046		
37	CIAC/ICFA Amort Rate		3.18%	From Page 2, Line 21, Col F
38	2007 Amort on Beginning Balance		125,929	
39				
40	2007 CIAC/ICFA Addition	\$ 1,320,015	\$ 6,600,076 / 5 years	
41	CIAC/ICFA Amort Rate (Half Year Convention)		1.59%	From Page 2, Line 21, Col F, divided by 2
42	2007 Amort on CIAC/ICFA Addition		20,988	
43				
44	2007 Ending Accu Amort of CIAC Balance	\$ 262,527		

Continued On Next Page

**RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED AMORTIZATION OF CIAC/ ICFA  
CONTINUED**

**Amortization  
Calculation**

2008 Beginning CIAC/ICFA Balance \$ 5,280,061 From Page 1, Line 36 + Line 40  
CIAC/ICFA Amort Rate 3.91% From Line 22, Col. F  
2008 Amort on Beginning Balance 206,450

2008 CIAC/ICFA Addition \$ 1,320,015 \$6,600,076 / 5 years  
CIAC/ICFA Amort Rate (Half Year Convention) 1.96% From Line 22, Col F, divided by 2  
2008 Amort on CIAC/ICFA Addition 25,872

2008 Ending Accu Amort of CIAC Balance \$ **494,849** Page 1, L 44 + Page 2, L 3,+ Page 2, L 7

[A]	[B]	[C]	[D]	[E]	[F]
Calculation of CIAC/ICFA Amortization Rate					
Year	Santa Cruz Gross Plant <sup>1</sup>	Santa Cruz Land & Land Rights <sup>1</sup>	Depreciable Plant <sup>1</sup> Col B - Col C	Santa Cruz Depreciation Expense <sup>1</sup>	CIAC Amortization Rate Col E / Col D
2004	\$ 9,974,085	\$ 13,490	\$ 9,960,595	\$ 281,430	2.83%
2005	\$18,994,939	\$ 29,990	\$ 18,964,949	\$ 547,074	2.88%
2006	\$33,832,454	\$ 44,856	\$ 33,787,598	\$ 1,183,943	3.50%
2007	\$74,714,949	\$ 44,856	\$ 74,670,093	\$ 2,373,028	3.18%
2008	\$87,753,403	\$ 44,856	\$ 87,708,547	\$ 3,430,845	3.91%

<sup>1</sup> From Company provided Plant Additions, Retirements, and Accum Depreciation Schedule

**OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED**

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<b>REVENUES:</b>							
1	Metered Water Sales	\$ 8,744,774	\$ 299,141	1	\$ 9,043,915	\$ 1,576,527	\$ 10,620,442
2	Water Sales - Unmetered	-	-		-	-	-
3	Other Operating Revenues	365,946	-		365,946	-	365,946
4	<b>Total Revenues</b>	<b>\$ 9,110,720</b>	<b>\$ 299,141</b>		<b>\$ 9,409,861</b>	<b>\$ 1,576,527</b>	<b>\$ 10,986,388</b>
<b>EXPENSES:</b>							
7	Salaries and Wages - Employees	\$ 781,051	\$ (781,051)	2	\$ -	\$ -	\$ -
8	Employee Pensions and Benefits	189,983	(189,983)	2	-	-	-
9	Purchased Water	-	-		-	-	-
10	Purchased Power	554,398	16,603	1	571,001	-	571,001
11	Fuel for Power Production	3,505	-		3,505	-	3,505
12	Chemicals	40,455	1,328	1	41,783	-	41,783
13	Materials and Supplies - Acct. No. 620	18,969	-		18,969	-	18,969
14	Materials and Supplies - Acct. No. 620.08	297,033	-	3	297,033	-	297,033
15	Contractual Services - Management Fees	-	934,587	2,4	934,587	-	934,587
16	Contractual Services - Testing	36,113	-		36,113	-	36,113
17	Contractual Services - Other	67,911	-		67,911	-	67,911
18	Rental of Building/Real Property	94,369	-		94,369	-	94,369
19	Rental of Equipment	7,803	-		7,803	-	7,803
20	Transportation Expense	45,296	-		45,296	-	45,296
21	Insurance - General Liability	53,083	-		53,083	-	53,083
22	Insurance - Other	4,647	-		4,647	-	4,647
23	Advertising Expense	-	-		-	-	-
24	Rate Case Expense	53,333	-		53,333	-	53,333
25	Bad Debt Expense	91,107	(49,147)	5	41,960	-	41,960
26	Miscellaneous Expense	34,629	-		34,629	-	34,629
27	Depreciation Expense	3,506,485	(263,594)	6	3,242,891	-	3,242,891
28	Taxes Other Than Income-Utility Regulatory	15,929	-		15,929	-	15,929
29	Taxes Other Than Income-Property Taxes	-	674,421	7	674,421	33,649	708,070
30	Taxes Other Than Income-Other	6,823	-		6,823	-	6,823
31	Income Taxes	1,238,174	(455,288)	8	782,886	595,534	1,378,419
32	<b>Total Operating Expenses</b>	<b>\$ 7,141,096</b>	<b>\$ (112,124)</b>		<b>\$ 7,028,972</b>	<b>\$ 629,183</b>	<b>\$ 7,658,154</b>
33							
34	<b>Operating Income (Loss)</b>	<b>\$ 1,969,624</b>	<b>\$ 411,265</b>		<b>\$ 2,380,889</b>	<b>\$ 947,344</b>	<b>\$ 3,328,234</b>

References:

Column (A): Company Schedule C-1, Page 2  
Column (B): Schedule CSB-8  
Column (C): Column (A) + Column (B)  
Column (D): Schedules CSB-1 and CSB-2  
Column (E): Column (C) + Column (D)



**SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR**

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Revenue and Expense Annualization Ref. Sch CSB-9	[C] ADJ #2 Salaries, Wages, Pensions, & Benefits Ref. Sch CSB-10	[D] ADJ #3 Materials & Supplies Acct No. 620.08 Ref. Sch CSB-11	[E] ADJ #4 Contract Svcs Management Fees Ref. Sch CSB-12	[F] ADJ #5 Bad Debt Expense Ref. Sch CSB-13	[G] ADJ #6 Depreciation Expense Ref. Sch CSB-14	[H] ADJ #7 Property Taxes Ref. Sch CSB-15	[I] ADJ #8 Income Taxes Ref. Sch CSB-16	[J] STAFF ADJUSTED
1		REVENUES:										
2		Metered Water Sales	\$ 8,744,774	\$ 299,141	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,043,915
3		Water Sales - Unmetered	-	-	-	-	-	-	-	-	-	-
4		Other Operating Revenues	-	-	-	-	-	-	-	-	-	-
5		Total Revenues	\$ 9,110,720	\$ 299,141	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,409,861
6		OPERATING EXPENSES:										
7	601	Salaries and Wages - Employees	\$ 781,051	-	(781,051)	-	-	-	-	-	-	-
8	604	Employee Pensions and Benefits	189,983	-	(189,983)	-	-	-	-	-	-	-
9	610	Purchased Water	-	-	-	-	-	-	-	-	-	-
10	615	Fuel for Power Production	554,398	16,603	-	-	-	-	-	-	-	571,001
11	616	Purchased Power	3,505	-	-	-	-	-	-	-	-	3,505
12	618	Chemicals	40,455	1,328	-	-	-	-	-	-	-	41,783
13	620	Materials and Supplies	18,969	-	-	-	-	-	-	-	-	18,969
14	620.08	Materials and Supplies	297,033	-	-	-	-	-	-	-	-	297,033
15	634	Contractual Services - Management Fees	-	-	971,034	(36,447)	-	-	-	-	-	934,587
16	635	Contractual Services - Testing	36,113	-	-	-	-	-	-	-	-	36,113
17	636	Contractual Services - Other	67,911	-	-	-	-	-	-	-	-	67,911
18	641	Rental of Building/Real Property	94,369	-	-	-	-	-	-	-	-	94,369
19	642	Rental of Equipment	7,803	-	-	-	-	-	-	-	-	7,803
20	650	Transportation Expense	45,296	-	-	-	-	-	-	-	-	45,296
21	657	Insurance - General Liability	53,083	-	-	-	-	-	-	-	-	53,083
22	659	Insurance - Other	4,647	-	-	-	-	-	-	-	-	4,647
23	660	Advertising Expense	-	-	-	-	-	-	-	-	-	-
24	667	Rate Case Expense	53,333	-	-	-	-	-	-	-	-	53,333
25	670	Bad Debt Expense	91,107	-	-	-	(49,147)	-	-	-	-	41,960
26	675	Miscellaneous Expense	34,629	-	-	-	-	-	-	-	-	34,629
27	403	Depreciation Expense	3,506,485	-	-	-	-	-	(263,594)	-	-	3,242,891
28	408	Taxes Other Than Income-Utility Regulatory	15,929	-	-	-	-	-	-	-	-	15,929
29	408.11	Taxes Other Than Income-Property Taxes	-	-	-	-	-	-	-	674,421	-	674,421
30	408.13	Taxes Other Than Income-Other	-	-	-	-	-	-	-	-	-	-
31	409	Income Taxes	6,823	-	-	-	-	-	-	-	(455,288)	782,886
32		Total Operating Expenses	\$ 7,141,096	\$ 17,931	\$ -	\$ -	\$ (36,447)	\$ (49,147)	\$ (263,594)	\$ 674,421	\$ (455,288)	\$ 7,028,972
33		Operating Income (Loss)	\$ 1,969,624	\$ 281,210	\$ -	\$ -	\$ 36,447	\$ 49,147	\$ 263,594	\$ (674,421)	\$ 455,288	\$ 2,380,889

**OPERATING INCOME ADJUSTMENT NO. 1 - REVENUE AND EXPENSE ANNUALIZATION**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Metered Water Sales - Actual	\$	8,941,756	\$	-	\$	8,941,756
2	Unbilled Revenue		102,160		-		102,160
3	Revenue Annualization to Metered Water Sales		(299,141)		299,141		-
4	Total	\$	8,744,775	\$	299,141	\$	9,043,916
5							
6	Purchased Pumping Power - Actual	\$	507,556	\$	-	\$	507,556
7	Electrical District No. 3 Rate Increase		63,445		-		63,445
8	Annualization Adjustment to Pumping Power		(16,603)		16,603		-
9		\$	554,398	\$	16,603	\$	571,001
10							
11	Chemicals - Actual	\$	41,783	\$	-	\$	41,783
12	Annualization Adjustment to Chemicals		(1,328)	\$	1,328		
13		\$	40,455	\$	1,328	\$	41,783
14							
15	Operating Income	\$	8,149,922	\$	281,210	\$	8,431,132

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 2 - SALARIES, WAGES, PENSIONS, & BENEFITS**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Salaries and Wage Expense	\$	781,051	\$	(781,051)	\$	-
2	Pension and Benefits		189,983	\$	(189,983)	\$	-
3		\$	971,034	\$	(971,034)	\$	-
4							
5	Contractual Services - Management Fees	\$	-	\$	971,034	\$	971,034

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 3 - MATERIALS AND SUPPLIES, ACCT NO. 620.08**

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Materials and Supplies, Acct No 620.08	297,033	\$ -	\$ 297,033

Materials and Supplies Acct No. 620.08		
2006	\$ 18,487	Company Sch E-2
2007	\$ -	Company Sch E-2
2008	\$ 297,033	Company Sch E-2
	<u>\$ 315,520</u>	
Divided by 3	3	
	<u>\$ 105,173</u>	

References:

Column A: Company Schedule C-1 & E-2  
Column B: Testimony, CSB; Data Request CSB 15-1  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACTUAL SERVICES, MANAGEMENT FEES**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Contractual Services - Management Fees	\$	-	\$	(36,447)	\$	(36,447)
2							
3							
4	Bonuses (Indirect Allocation)	\$	-	Data Request Response CSB 2-33			
5	Bonuses (Direct Allocation)		9,822	From Trial Balance			
6	Kitchen Supplies		2,647	From Trial Balance			
7		\$	12,469				
8							
9							
10	Employee Moving & Hiring	\$	1,863	From Trial Balance			
11	Employee Training & Certification		8,268	From Trial Balance			
12	Employee Travel		35,918	From Trial Balance			
13	Employee Meals		1,908	From Trial Balance			
14			47,957				
15	Divided by 2 years		2				
16		\$	23,979				
17							
18	Total (Line 7 + Line 16)	\$	36,447				

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

Santa Cruz Water Company  
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Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-13

**OPERATING INCOME ADJUSTMENT NO. 5 - BAD DEBT EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense	91,107	(49,147)	41,960

References:

Column A: Company Data Request Response CSB 1.26 & RUCO 2.04(e)  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	303 Land and Land Rights	\$ 44,856	\$ (44,856)	\$ 89,712	0.00%	\$ -
2	304 Structures and Improvements	9,447,338	-	9,447,338	3.33%	314,596
3	306 Lake, River, and Other Intakes	1,855	-	1,855	2.50%	46
4	307 Wells and Springs	3,694,926	-	3,694,926	3.33%	123,041
5	309 Supply Mains	2,086,246	-	2,086,246	2.00%	41,725
6	310 Power Generation Equipment	323,093	-	323,093	5.00%	16,155
7	311 Pumping Equipment	6,353,511	-	6,353,511	12.50%	794,189
8	320 Water Treatment Equipment	12,554	-	12,554	3.33%	418
9	330 Distribution Reservoirs and Standpipes	1,367,063	-	1,367,063	2.22%	30,349
10	331 Transmission and Distribution Mains	44,443,414	-	44,443,414	2.00%	888,868
11	333 Services	4,598,396	-	4,598,396	3.33%	153,127
12	334 Meters and Meter Installations	3,553,579	-	3,553,579	8.33%	296,013
13	335 Hydrants	4,340,566	-	4,340,566	2.00%	86,811
14	336 Backflow Prevention Devices	26,572	-	26,572	6.67%	1,772
15	339 Other Plant and Miscellaneous Equipment	695,109	-	695,109	6.67%	46,364
16	340 Office Furniture and Equipment	504,424	-	504,424	6.67%	33,645
17	341 Transportation Equipment	596,576	-	596,576	20.00%	119,315
18	343 Tools, Shop, and Garage Equipment	65,276	-	65,276	5.00%	3,264
19	344 Laboratory Equipment	107,172	-	107,172	10.00%	10,717
20	345 Power Operated Equipment	60,372	-	60,372	5.00%	3,019
21	346 Communication Equipment	565,936	-	565,936	10.00%	56,594
22	347 Miscellaneous Equipment	80,859	-	80,859	10.00%	8,086
23	348 Other Tangible Equipment	4,783,710	-	4,783,710	10.00%	478,371
24	Total Plant	\$ 87,753,403	\$ -	\$ 87,798,259		\$ 3,506,485

Composite Depreciation Rate (Depr Exp / Depreciable Plant): 3.99%

CIAC: \$ 6,600,076

Amortization of CIAC (Line 32 x Line 33): \$ 263,594

Depreciation Expense Before Amortization of CIAC: \$ 3,506,485

Less Amortization of CIAC: \$ 263,594

Test Year Depreciation Expense - Staff: \$ 3,242,891

Depreciation Expense - Company: 3,506,485

Staff's Total Adjustment: \$ (263,594)

References:

Column [A]: Schedule CSB-4

Column [B]: From Column [A]

Column [C]: Column [A] - Column [B]

Column [D]: Engineering Staff Report

Column [E]: Column [C] x Column [D]

**OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE**

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 9,409,861	\$ 9,409,861
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	18,819,722	\$ 18,819,722
4	Staff Recommended Revenue, Per Schedule CSB-1	<u>9,409,861</u>	\$ 10,986,388
5	Subtotal (Line 4 + Line 5)	28,229,583	29,806,110
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	9,409,861	\$ 9,935,370
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	18,819,722	\$ 19,870,740
10	Plus: 10% of CWIP -	2,545,207	2,545,207
11	Less: Net Book Value of Licensed Vehicles	299,641	\$ 299,641
12	Full Cash Value (Line 9 + Line 10 - Line 11)	21,065,288	\$ 22,116,306
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	4,423,711	\$ 4,644,424
15	Composite Property Tax Rate	<u>15.2456%</u>	<u>15.2456%</u>
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 674,421	
17	Company Proposed Property Tax	<u>-</u>	
18	Staff Test Year Adjustment (Line 16-Line 17)	<u>\$ 674,421</u>	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 708,070
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 674,421
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		<u>\$ 33,649</u>
22	Increase to Property Tax Expense		\$ 33,649
23	Increase in Revenue Requirement		1,576,527
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		2.134384%



Santa Cruz Water Company  
Docket No. SW-20446A-09-0080  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-16

**OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Tax Expense - Test Year	1,238,174	(455,288)	782,886

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

Willow Valley Water Company, Inc.  
Docket No. W-01732A-09-0079  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-1

# REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 2,251,164	\$ 2,251,164
2	Adjusted Operating Income (Loss)	\$ (95,459)	\$ (88,176)
3	Current Rate of Return (L2 / L1)	-4.24%	-3.92%
4	Required Rate of Return	9.24%	8.20%
5	Required Operating Income (L4 * L1)	\$ 208,008	\$ 184,595
6	Operating Income Deficiency (L5 - L2)	\$ 303,467	\$ 272,772
7	Gross Revenue Conversion Factor	1.64509	1.65100
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 499,229	\$ 450,347
9	Adjusted Test Year Revenue	\$ 473,527	\$ 473,527
10	Proposed Annual Revenue (L8 + L9)	\$ 972,756	\$ 923,874
11	Required Increase/Decrease in Revenue (%) (L8/L9)	105.43%	95.10%

## References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1  
Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-5

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4308%			
5	Subtotal (L3 - L4)	60.5692%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.651005</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	34.0000%			
16	Effective Federal Income Tax Rate (L14 * L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (CSB-11, Col B, L24)	1.3549%			
22	Effective Property Tax Factor (L20*L21)		0.8319%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.4308%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 184,595			
25	Adjusted Test Year Operating Income (Loss) (Sch CSB-5, Col C, L34)	(88,176)			
26	Required Increase in Operating Income (L24 - L25)		\$ 272,772		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 97,646			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(73,828)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		171,474		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 923,874			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (CSB-11, Col B, L19)	\$ 25,012			
36	Property Tax on Test Year Revenue (CSB-11, Col A, L16)	18,910			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		6,102		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 450,347		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-11, Col. [C], Line 5 & Sch. CSB-1, Col. [D] Line	\$ 473,527	\$ 450,347	\$ 923,874	
40	Operating Expenses Excluding Income Taxes	\$ 635,531	\$ 6,102	\$ 641,633	
41	Synchronized Interest (L56)	\$ 29,265		\$ 29,265	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (191,269)		\$ 252,976	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 * L43)	\$ (13,328)		\$ 17,627	
45	Federal Taxable Income (L42 - L44)	\$ (177,941)		\$ 235,349	
46	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
47	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
48	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
49	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
50	Federal Tax on All Income (\$0 - \$10,000,000) @ 34%	\$ (60,500)		\$ 80,019	
51	Total Federal Income Tax	\$ (60,500)		\$ 80,019	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (73,828)		\$ 97,646	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14	\$ 2,251,164			
55	Weighted Average Cost of Debt	1.3000%			
56	Synchronized Interest (L45 X L46)	\$ 29,265			

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 4,016,878	\$ 4,016,878
2	Less: Accumulated Depreciation	(1,228,047)	(1,228,047)
3	Net Plant in Service	\$ 2,788,831	\$ 2,788,831
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	\$ 618,488	\$ 618,488
5	Service Line and Meter Advances	\$ -	\$ -
6	Contributions in Aid of Construction (CIAC)	\$ -	\$ -
7	Less: Accumulated Amortization	-	-
8	Net CIAC	\$ -	\$ -
9	Total Advances and Contributions	\$ 618,488	\$ 618,488
10	Customer Deposits	\$ 6,985	\$ 6,985
11	Accumulated Deferred Income Taxes	\$ -	\$ -
<u>ADD:</u>			
12	Deferred Tax Assets	\$ 87,806	\$ 87,806
13	Working Capital	\$ -	\$ -
14	<b>Total Rate Base</b>	<b>\$ 2,251,164</b>	<b>\$ 2,251,164</b>

References:

Column [A], Company Schedule B-1, Page 1  
Column [B]: Schedule CSB-4  
Column [C]: Column [A] + Column [B]

**SUMMARY OF RATE BASE ADJUSTMENTS**

LINE NO.		[A]	[B]	[C]
	PLANT IN SERVICE			
Acct. No.	Plant Description	COMPANY AS FILED		STAFF AS ADJUSTED
1				
2	303 Land and Land Rights	\$ 18,100	\$ -	\$ 18,100
3	304 Structures and Improvements	197,952	-	197,952
4	306 Lake, River, and Other Intakes	-	-	-
5	307 Wells and Springs	1,622,446	-	1,622,446
6	309 Supply Mains	2,118	-	2,118
7	310 Power Generation Equipment	10,751	-	10,751
8	311 Pumping Equipment	492,405	-	492,405
9	320 Water Treatment Equipment	263,210	-	263,210
10	330 Distribution Reservoirs and Standpipes	265,882	-	265,882
11	331 Transmission and Distribution Mains	620,830	-	620,830
12	333 Services	95,359	-	95,359
13	334 Meters and Meter Installations	220,733	-	220,733
14	335 Hydrants	37,179	-	37,179
15	336 Backflow Prevention Devices	1,024	-	1,024
16	339 Other Plant and Miscellaneous Equipment	19,311	-	19,311
17	340 Office Furniture and Equipment	22,526	-	22,526
18	341 Transportation Equipment	20,846	-	20,846
19	343 Tools, Shop, and Garage Equipment	42,909	-	42,909
20	344 Laboratory Equipment	9,508	-	9,508
21	345 Power Operated Equipment	38,925	-	38,925
22	346 Communication Equipment	2,654	-	2,654
23	347 Miscellaneous Equipment	8,273	-	8,273
24	348 Other Tangible Equipment	3,937	-	3,937
25	Total Plant in Service - Actual	\$ 4,016,878	\$ -	\$ 4,016,878
31	Less: Accumulated Depreciation	\$ (1,228,047)	\$ -	(1,228,047)
33	Net Plant in Service	\$ 2,788,831	\$ -	\$ 2,788,831
34				
35	<u>LESS:</u>			
36	Advances in Aid of Construction (AIAC)	\$ 618,488	\$ -	\$ 618,488
38	Service Line and Meter Advances	\$ -	-	\$ -
40	Contributions in Aid of Construction (CIAC)	\$ -	-	\$ -
41	Less: CIAC - Pro Forma	-	-	-
42	Total CIAC - Adjusted	\$ -	\$ -	\$ -
44	Less: Accumulated Amortization	\$ -	-	\$ -
45	Less: Accumulated Amort - Pro Forma	-	-	-
46		\$ -	\$ -	\$ -
48	Net CIAC	\$ -	-	\$ -
49				
50	Total Advances and Net Contributions	\$ 618,488	-	\$ 618,488
51				
52	Customer Deposits	\$ 6,985	-	\$ 6,985
54	Deferred Tax Liability	\$ -	-	\$ -
55				
56	<u>ADD:</u>			
57	Deferred Tax Asset	\$ 87,806	-	\$ 87,806
58	Working Capital Allowance	\$ -	-	\$ -
59	Total Rate Base	\$ 2,251,164	\$ -	\$ 2,251,164

**OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED**

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<b>REVENUES:</b>							
1	Metered Water Sales	\$ 453,784	\$ -		\$ 453,784	\$ 450,347	\$ 904,131
2	Water Sales - Unmetered	-	-		-	-	-
3	Other Operating Revenues	19,743	-		19,743	-	19,743
4	<b>Total Revenues</b>	<b>\$ 473,527</b>	<b>\$ -</b>		<b>\$ 473,527</b>	<b>\$ 450,347</b>	<b>\$ 923,874</b>
<b>EXPENSES:</b>							
7	Salaries and Wages - Employees	\$ 226,369	\$ (226,369)	1	\$ -	\$ -	\$ -
8	Employee Pensions and Benefits	50,965	(50,965)	1	-	-	-
9	Purchased Water	-	-		-	-	-
10	Purchased Power	33,567	-		33,567	-	33,567
11	Fuel for Power Production	-	-		-	-	-
12	Chemicals	18,049	-		18,049	-	18,049
13	Materials and Supplies - Acct No. 620	18,697	-		18,697	-	18,697
14	Materials and Supplies - Acct No. 620.08	41,492	-	2	41,492	-	41,492
15	Contractual Services - Management Fees	-	255,962	1,3	255,962	-	255,962
16	Contractual Services - Testing	5,401	-		5,401	-	5,401
17	Contractual Services - Other	12,787	-		12,787	-	12,787
18	Rental of Building/Real Property	9,185	-		9,185	-	9,185
19	Rental of Equipment	-	-		-	-	-
20	Transportation Expense	13,076	-		13,076	-	13,076
21	Insurance - General Liability	5,119	-		5,119	-	5,119
22	Insurance - Other	1,072	-		1,072	-	1,072
23	Advertising Expense	-	-		-	-	-
24	Rate Case Expense	5,333	-		5,333	-	5,333
25	Bad Debt Expense	4,735	(3,948)	4	787	-	787
26	Miscellaneous Expense	10,257	-		10,257	-	10,257
27	Depreciation Expense	185,697	-		185,697	-	185,697
28	Taxes Other Than Income-Utility Regulatory	140	-		140	-	140
29	Taxes Other Than Income-Property Taxes	-	18,910	5	18,910	6,102	25,012
30	Taxes Other Than Income-Other	-	-		-	-	-
31	Income Taxes	(72,955)	(873)	6	(73,828)	171,474	97,646
32	<b>Total Operating Expenses</b>	<b>\$ 568,986</b>	<b>\$ (7,283)</b>		<b>\$ 561,703</b>	<b>\$ 177,576</b>	<b>\$ 739,279</b>
33							
34	<b>Operating Income (Loss)</b>	<b>\$ (95,459)</b>	<b>\$ 7,283</b>		<b>\$ (88,176)</b>	<b>\$ 272,772</b>	<b>\$ 184,595</b>

**References:**

Column (A): Company Schedule C-1, Page 2  
Column (B): Schedule CSB-8  
Column (C): Column (A) + Column (B)  
Column (D): Schedules CSB-1 and CSB-2  
Column (E): Column (C) + Column (D)

Willow Valley Water Company, Inc.  
Docket No. W-01732A-09-0079  
Test Year Ended December 31, 2008

## SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Salaries, Wages Pensions, & Benefits	[C] ADJ #2 Materials & Supplies	[D] ADJ #3 Contract Services Management Fees	[E] ADJ #4 Bad Debt Expense	[F] ADJ #5 Property Tax Exp	[G] ADJ #6 Income Tax Expense	[H] STAFF ADJUSTED
		<u>REVENUES:</u>								
1		Metered Water Sales	\$ 453,784	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 453,784
2		Water Sales - Unmetered	-	-	-	-	-	-	-	-
3		Other Operating Revenues	-	-	-	-	-	-	-	-
4		Total Revenues	\$ 473,527	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 473,527
5										
6		<u>OPERATING EXPENSES:</u>								
7	601	Salaries and Wages - Employees	\$ 226,369	(226,369)	-	-	-	-	-	-
8	604	Employee Pensions and Benefits	50,965	(50,965)	-	-	-	-	-	-
9	610	Purchased Water	-	-	-	-	-	-	-	-
10	615	Purchased Power	33,567	-	-	-	-	-	-	33,567
11	616	Fuel for Power Production	-	-	-	-	-	-	-	-
12	618	Chemicals	18,049	-	-	-	-	-	-	18,049
13	620	Materials and Supplies	18,697	-	-	-	-	-	-	18,697
14	620.08	Materials and Supplies	41,492	-	-	-	-	-	-	41,492
15	634	Contractual Services - Management Fees	-	277,334	-	(21,372)	-	-	-	255,962
16	635	Contractual Services - Testing	5,401	-	-	-	-	-	-	5,401
17	636	Contractual Services - Other	12,787	-	-	-	-	-	-	12,787
18	641	Rental of Building/Real Property	9,185	-	-	-	-	-	-	9,185
19	642	Rental of Equipment	-	-	-	-	-	-	-	-
20	650	Transportation Expense	13,076	-	-	-	-	-	-	13,076
21	657	Insurance - General Liability	5,119	-	-	-	-	-	-	5,119
22	659	Insurance - Other	1,072	-	-	-	-	-	-	1,072
23	660	Advertising Expense	-	-	-	-	-	-	-	-
24	667	Rate Case Expense	5,333	-	-	-	-	-	-	5,333
25	670	Bad Debt Expense	4,735	-	-	-	(3,948)	-	-	787
26	675	Miscellaneous Expense	10,257	-	-	-	-	-	-	10,257
27	403	Depreciation Expense	185,697	-	-	-	-	-	-	185,697
28	408	Taxes Other Than Income-Utility Regulatory	140	-	-	-	-	-	-	140
29	408.11	Taxes Other Than Income-Property Taxes	-	-	-	-	-	18,910	-	18,910
30	408.13	Taxes Other Than Income-Other	-	-	-	-	-	-	-	-
31	409	Income Taxes	(72,955)	-	-	-	-	-	(873)	(73,828)
32		Total Operating Expenses	\$ 568,986	\$ -	\$ -	\$ (21,372)	\$ (3,948)	\$ 18,910	\$ (873)	\$ 561,703
33										
34		Operating Income (Loss)	\$ (95,459)	\$ -	\$ -	\$ 21,372	\$ 3,948	\$ (18,910)	\$ 873	\$ (88,176)

**OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES, WAGES, PENSIONS, & BENEFITS**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Salaries and Wage Expense	\$	226,369	\$	(226,369)	\$	-
2	Pension and Benefits		50,965	\$	(50,965)	\$	-
3		\$	277,334	\$	(277,334)	\$	-
4							
5	Contractual Services - Management Fees	\$	-	\$	277,334	\$	277,334

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]



**OPERATING INCOME ADJUSTMENT NO. 2 - MATERIALS AND SUPPLIES, ACCT NO. 620.08**

LINE NO.	DESCRIPTION	[A]			[B]		[C]	
		COMPANY AS FILED			STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Materials and Supplies, Acct No 620.08	41,492			\$	-	\$	41,492
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								

Materials and  
Supplies  
Acct No. 620.08

2006	\$	17,706	Company Sch E-2
2007	\$	-	Company Sch E-2
2008	\$	41,492	Company Sch E-2
	\$	59,198	
Divided by 3		3	
	\$	19,733	

References:

Column A: Company Schedule C-1 & E-2  
Column B: Testimony, CSB; Data Request CSB 15-1  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 3 - CONTRACTUAL SERVICES, MANAGEMENT FEES**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services - Management Fees	\$ -	\$ (21,372)	\$ (21,372)
2				
3				
4	Bonuses (Direct Allocation)	13,358	From Trial Balance	
5	Kitchen Supplies	851	From Trial Balance	
6		\$ 14,209		
7				
8	Employee Moving & Hiring	\$ 314	From Trial Balance	
9	Employee Training & Certification	894	From Trial Balance	
10	Employee Travel	11,471	From Trial Balance	
11	Employee Meals	1,647	From Trial Balance	
12		14,326		
13	Divided by 2 years	2		
14		\$ 7,163		
15				
16	Total (Line 6 + Line 14)	\$ 21,372		

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB; Data Request CSB 2-30  
Column C: Column [A] + Column [B]

Willow Valley Water Company, Inc.  
Docket No. W-01732A-09-0079  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-10

**OPERATING INCOME ADJUSTMENT NO. 4 - BAD DEBT EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense	4,735	(3,948)	787

References:

Column A: Company Data Request Response CSB 1.26 & RUCO 2.04(e)  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

Willow Valley Water Company, Inc.  
Docket No. W-01732A-09-0079  
Test Year Ended December 31, 2008

**Surrebuttal Schedule CSB-11**

**OPERATING INCOME ADJUSTMENT No. 5 - Property Tax Expense**

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 473,527	\$ 473,527
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	947,054	\$ 947,054
4	Staff Recommended Revenue, Per Schedule CSB-1	473,527	\$ 923,874
5	Subtotal (Line 4 + Line 5)	1,420,581	1,870,928
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	473,527	\$ 623,643
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	947,054	\$ 1,247,286
10	Plus: 10% of CWIP -	47	47
11	Less: Net Book Value of Licensed Vehicles	16,677	\$ 16,677
12	Full Cash Value (Line 9 + Line 10 - Line 11)	930,424	\$ 1,230,656
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	195,389	\$ 258,438
15	Composite Property Tax Rate	9.6781%	9.6781%
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 18,910	
17	Company Proposed Property Tax	-	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 18,910	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 25,012
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 18,910
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 6,102
22	Increase to Property Tax Expense		\$ 6,102
23	Increase in Revenue Requirement		450,347
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.354934%

Willow Valley Water Company, Inc.  
Docket No. W-01732A-09-0079  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-12

**OPERATING INCOME ADJUSTMENT NO. 6 - INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Tax Expense - Test Year	(72,955)	(873)	(73,828)

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 4,240,018	\$ 4,240,018
2	Adjusted Operating Income (Loss)	\$ (601,944)	\$ (548,346)
3	Current Rate of Return (L2 / L1)	-14.20%	-12.93%
4	Required Rate of Return	9.56%	8.70%
5	Required Operating Income (L4 * L1)	\$ 405,346	\$ 368,882
6	Operating Income Deficiency (L5 - L2)	\$ 1,007,290	\$ 917,227
7	Gross Revenue Conversion Factor	1.64509	1.65332
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 1,657,078	\$ 1,516,475
9	Adjusted Test Year Revenue	\$ 2,894,421	\$ 3,037,462
10	Proposed Annual Revenue (L8 + L9)	\$ 4,551,499	\$ 4,553,937
11	Required Increase/Decrease in Revenue (%) (L8/L9)	57.25%	49.93%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1  
Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-5

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.5158%			
5	Subtotal (L3 - L4)	60.4842%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.653325</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (CSB-12, Col B, L24)	1.4933%			
22	Effective Property Tax Factor (L20*L21)		0.9169%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.5158%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 368,882			
25	Adjusted Test Year Operating Income (Loss) (Schedule CSB-5, Col C, L 34)	(548,346)			
26	Required Increase in Operating Income (L24 - L25)		\$ 917,227		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 173,252			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(403,349)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		576,601		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 4,553,937			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (CSB-12, Col B, L19)	\$ 165,882			
36	Property Tax on Test Year Revenue (CSB-12, Col A, L16)	143,236			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		22,646		
38	<b>Total Required Increase in Revenue (L26 + L29 + L34 + L37)</b>		<b>\$ 1,516,475</b>		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-5)	\$ 3,037,462	\$ 1,516,475	\$ 4,553,937	
40	Operating Expenses Excluding Income Taxes	\$ 3,989,156	\$ 22,646	\$ 4,011,803	
41	Synchronized Interest (L56)	\$ 93,280		\$ 93,280	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (1,044,975)		\$ 448,854	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (72,814)		\$ 31,276	
45	Federal Taxable Income (L42 - L44)	\$ (972,161)		\$ 417,578	
46	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
47	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
48	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
49	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
50	Federal Tax on All Income (\$0-\$10,000,000) @ 34%	\$ (330,535)		\$ 141,976	
51	Total Federal Income Tax	\$ (330,535)		\$ 141,976	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (403,349)		\$ 173,252	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14)	\$ 4,240,018			
55	Weighted Average Cost of Debt	2.2000%			
56	Synchronized Interest (L45 X L46)	\$ 93,280			

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 45,877,421	\$ 45,877,421
2	Less: Accumulated Depreciation	(3,071,499)	(3,071,499)
3	Net Plant in Service	\$ 42,805,922	\$ 42,805,922
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	\$ 37,992,781	\$ 37,992,781
5	Service Line and Meter Advances	\$ -	\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 890,221	\$ 890,221
7	Less: Accumulated Amortization	98,283	98,283
8	Net CIAC	\$ 791,938	\$ 791,938
9	Total Advances and Contributions	\$ 38,784,719	\$ 38,784,719
10	Customer Deposits	\$ 162,132	\$ 162,132
11	Accumulated Deferred Income Taxes	\$ -	\$ -
<u>ADD:</u>			
12	Deferred Tax Assets	\$ 380,947	\$ 380,947
13	Working Capital	\$ -	\$ -
14	<b>Total Rate Base</b>	<b>\$ 4,240,018</b>	<b>\$ 4,240,018</b>

References:

Column [A], Company Schedule B-1, Page 1  
Column [B]: Schedule CSB-4  
Column [C]: Column [A] + Column [B]



**SUMMARY OF RATE BASE ADJUSTMENTS**

LINE NO.	PLANT IN SERVICE	[A]	[B]	[C]
	Acct. No. Plant Description	COMPANY AS FILED		STAFF AS ADJUSTED
1				
2	303 Land and Land Rights	\$ 148,446	\$ -	\$ 148,446
3	304 Structures and Improvements	945,383	-	945,383
4	306 Lake, River, and Other Intakes	-	-	-
5	307 Wells and Springs	775,544	-	775,544
6	309 Supply Mains	-	-	-
7	310 Power Generation Equipment	20,612	-	20,612
8	311 Pumping Equipment	7,803,214	-	7,803,214
9	320 Water Treatment Equipment	3,892,532	-	3,892,532
10	330 Distribution Reservoirs and Standpipes	3,439,680	-	3,439,680
11	331 Transmission and Distribution Mains	19,407,008	-	19,407,008
12	333 Services	2,795,075	-	2,795,075
13	334 Meters and Meter Installations	1,562,332	-	1,562,332
14	335 Hydrants	1,900,270	-	1,900,270
15	336 Backflow Prevention Devices	12,674	-	12,674
16	339 Other Plant and Miscellaneous Equipment	114,439	-	114,439
17	340 Office Furniture and Equipment	46,206	-	46,206
18	341 Transportation Equipment	275,038	-	275,038
19	343 Tools, Shop, and Garage Equipment	90,582	-	90,582
20	344 Laboratory Equipment	42,171	-	42,171
21	345 Power Operated Equipment	55,588	-	55,588
22	346 Communication Equipment	20,584	-	20,584
23	347 Miscellaneous Equipment	15,371	-	15,371
24	348 Other Tangible Equipment	2,514,672	-	2,514,672
25	Total Plant in Service - Actual	\$ 45,877,421	\$ -	\$ 45,877,421
31	Less: Accumulated Depreciation	\$ (3,071,499)	\$ -	(3,071,499)
33	Net Plant in Service	\$ 42,805,922	\$ -	\$ 42,805,922
34				
35	<u>LESS:</u>			
36	Advances in Aid of Construction (AIAC)	\$ 37,992,781	\$ -	\$ 37,992,781
38	Service Line and Meter Advances	\$ -	-	\$ -
39				
40	Contributions in Aid of Construction (CIAC)	\$ 890,221	-	\$ 890,221
41	Less: CIAC - Pro Forma	-	-	-
42	Total CIAC - Adjusted	\$ 890,221	\$ -	\$ 890,221
43				
44	Less: Accumulated Amortization	\$ 98,283	-	\$ 98,283
45	Less: Accumulated Amort - Pro Forma	-	-	-
46		\$ 98,283	\$ -	\$ 98,283
47				
48	Net CIAC	\$ 791,938	-	\$ 791,938
49				
50	Total Advances and Net Contributions	\$ 38,784,719	-	\$ 38,784,719
51				
52	Customer Deposits	\$ 162,132	-	\$ 162,132
54	Deferred Tax Liability	\$ -	-	\$ -
55				
56	<u>ADD:</u>			
57	Deferred Tax Asset	\$ 380,947	-	\$ 380,947
58	Working Capital Allowance	\$ -	-	\$ -
59	Total Rate Base	\$ 4,240,018	\$ -	\$ 4,240,018

**OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED**

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR ADJ AS NO. ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED	
<u>REVENUES:</u>							
1	Metered Water Sales	\$ 2,659,938	\$ 143,041	1	\$ 2,802,979	\$ 1,516,475	\$ 4,319,454
2	Water Sales - Unmetered	-	-	-	-	-	-
3	Other Operating Revenues	234,483	-	-	234,483	-	234,483
4	<b>Total Revenues</b>	<b>\$ 2,894,421</b>	<b>\$ 143,041</b>		<b>\$ 3,037,462</b>	<b>\$ 1,516,475</b>	<b>\$ 4,553,937</b>
<u>EXPENSES:</u>							
7	Salaries and Wages - Employees	\$ 670,808	\$ (670,808)	2	\$ -	\$ -	\$ -
8	Employee Pensions and Benefits	143,080	(143,080)	2	-	-	-
9	Purchased Water	-	-	-	-	-	-
10	Purchased Power	291,613	16,356	1	307,969	-	307,969
11	Fuel for Power Production	-	-	-	-	-	-
12	Chemicals	143,618	8,519	1	152,137	-	152,137
13	Materials and Supplies - Acct No. 620	31,821	-	-	31,821	-	31,821
14	Materials and Supplies - Acct No. 620.08	128,737	-	3	128,737	-	128,737
15	Contractual Services - Management Fees	-	758,573	2,4	758,573	-	758,573
16	Contractual Services - Testing	33,729	-	-	33,729	-	33,729
17	Contractual Services - Other	41,898	-	-	41,898	-	41,898
18	Rental of Building/Real Property	37,473	-	-	37,473	-	37,473
19	Rental of Equipment	4,239	-	-	4,239	-	4,239
20	Transportation Expense	67,812	-	-	67,812	-	67,812
21	Insurance - General Liability	17,098	-	-	17,098	-	17,098
22	Insurance - Other	3,336	-	-	3,336	-	3,336
23	Advertising Expense	-	-	-	-	-	-
24	Rate Case Expense	18,667	-	-	18,667	-	18,667
25	Bad Debt Expense	28,944	(22,527)	5	6,417	-	6,417
26	Miscellaneous Expense	28,042	-	-	28,042	-	28,042
27	Depreciation Expense	2,199,986	-	-	2,199,986	-	2,199,986
28	Taxes Other Than Income-Utility Regulatory	5,885	-	-	5,885	-	5,885
29	Taxes Other Than Income-Property Taxes	-	143,236	6	143,236	22,646	165,882
30	Taxes Other Than Income-Other	2,101	-	-	2,101	-	2,101
31	Income Taxes	(402,522)	(827)	7	(403,349)	576,601	173,252
32	<b>Total Operating Expenses</b>	<b>\$ 3,496,365</b>	<b>\$ 89,443</b>		<b>\$ 3,585,808</b>	<b>\$ 599,247</b>	<b>\$ 4,185,055</b>
33							
34	<b>Operating Income (Loss)</b>	<b>\$ (601,944)</b>	<b>\$ 53,598</b>		<b>\$ (548,346)</b>	<b>\$ 917,227</b>	<b>\$ 368,882</b>

**References:**

Column (A): Company Schedule C-1, Page 2  
Column (B): Schedule CSB-8  
Column (C): Column (A) + Column (B)  
Column (D): Schedules CSB-1 and CSB-2  
Column (E): Column (C) + Column (D)

**SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR**

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Revenue and Expense Annualization Ref: Sch CSB-7	[C] ADJ #2 Salaries, Wages Pensions, & Benefits Ref: Sch CSB-8	[D] ADJ #3 Materials & Supplies Acct No. 620.08 Ref: Sch CSB-9	[F] ADJ #4 Contract Svcs Management Fees Ref: Sch CSB-10	[G] ADJ #5 Bad Debt Expense Ref: Sch CSB-11	[H] ADJ #6 Property Tax Exp Ref: Sch CSB-12	[I] ADJ #7 Income Tax Expense Ref: Sch CSB-13	[J] STAFF ADJUSTED
1		REVENUES:									
2		Metered Water Sales	\$ 2,659,938	\$ 143,041							\$ 2,802,979
3		Water Sales - Unmetered									
4		Other Operating Revenues									
5		Total Revenues	\$ 2,894,421	\$ 143,041							\$ 234,483
6		OPERATING EXPENSES:									
7	601	Salaries and Wages - Employees	\$ 670,808		(670,808)						
8	604	Employee Pensions and Benefits	143,080		(143,080)						
9	610	Purchased Water									
10	615	Fuel for Power Production	291,613	16,356							307,969
11	616	Chemicals									
12	618	Materials and Supplies	143,618	8,519							152,137
13	620	Materials and Supplies	31,821								31,821
14	620.08	Materials and Supplies	128,737								128,737
15	634	Contractual Services - Management Fees			813,888	(55,315)					758,573
16	635	Contractual Services - Testing	33,729								33,729
17	636	Contractual Services - Other	41,898								41,898
18	641	Rental of Building/Real Property	37,473								37,473
19	642	Rental of Equipment	4,239								4,239
20	650	Transportation Expense	67,812								67,812
21	657	Insurance - General Liability	17,098								17,098
22	659	Insurance - Other	3,336								3,336
23	660	Advertising Expense									
24	667	Rate Case Expense	18,667								18,667
25	670	Bad Debt Expense	28,944				(22,527)				6,417
26	675	Miscellaneous Expense	28,042								28,042
27	403	Depreciation Expense	2,199,986								2,199,986
28	408	Taxes Other Than Income-Utility Regulatory	5,885								5,885
29	408.11	Taxes Other Than Income-Property Taxes							143,236		143,236
30	408.13	Taxes Other Than Income-Other									
31	409	Income Taxes	2,101								2,101
32		Total Operating Expenses	\$ 3,496,365	\$ 24,875		\$ (55,315)	\$ (22,527)	\$ (143,236)	\$ (827)		\$ (403,349)
33		Operating Income (Loss)	\$ (601,944)	\$ 118,166		\$ 55,315	\$ 22,527	\$ (143,236)	\$ 827		\$ (548,346)

**OPERATING INCOME ADJUSTMENT NO. 1 - REVENUE AND EXPENSE ANNUALIZATION**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Metered Water Sales - Actual	\$	2,805,048	\$	-	\$	2,805,048
2	Unbilled Revenue		(2,069)		-		(2,069)
3	Revenue Annualization to Metered Water Sales		(143,041)		143,041		-
4	Total	\$	2,659,938	\$	143,041	\$	2,802,979
5							
6	Purchased Pumping Power - Actual	\$	297,842	\$	-	\$	297,842
7	APS Interim Rate Increase		10,127		-		10,127
8	Annualization Adjustment to Pumping Power		(16,356)		16,356		-
9		\$	291,613	\$	16,356	\$	307,969
10							
11	Chemicals - Actual	\$	152,137	\$	-	\$	152,137
12	Annualization Adjustment to Chemicals		(8,519)	\$	8,519		
13		\$	143,618	\$	8,519	\$	152,137
14							
15	Operating Income	\$	2,224,707	\$	118,166	\$	2,342,873

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 2 - SALARIES, WAGES, PENSIONS, & BENEFITS**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Salaries and Wage Expense	\$	670,808	\$	(670,808)	\$	-
2	Pension and Benefits		143,080	\$	(143,080)	\$	-
3		\$	813,888	\$	(813,888)	\$	-
4							
5	Contractual Services - Management Fees	\$	-	\$	813,888	\$	813,888

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

Surrebuttal Schedule CSB-9

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Materials and Supplies, Acct No 620.08	128,737	\$ -	\$ 128,737
2				
3				
4				
5				
6				
7		2006	\$ 48,296	Company Sch E-2
8		2007	\$ -	Company Sch E-2
9		2008	\$ 128,737	Company Sch E-2
10			\$ 177,033	
11		Divided by 3	3	
12			\$ 59,011	

Column A: Company Schedule C-1 & E-2  
Column B: Testimony, CSB; Data Request CSB 15-1  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACTUAL SERVICES, MANAGEMENT FEES**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Contractual Services - Management Fees	\$	-	\$	(55,315)	\$	(55,315)
2							
3							
4							
5	Bonuses (Indirect Allocation)	\$	-	Data Request Response CSB 2-30			
6	Bonuses (Direct Allocation)		18,577	From Trial Balance			
7	Kitchen Supplies		3,624	From Trial Balance			
8		\$	22,202				
9							
10	Employee Moving & Hiring	\$	402	From Trial Balance			
11	Employee Training & Certification		7,050	From Trial Balance			
12	Employee Travel		54,000	From Trial Balance			
13	Employee Meals		4,774	From Trial Balance			
14			66,226				
15	Divided by 2 years		2				
16		\$	33,113				
17							
18	Total (Line 8 + Line 16)	\$	55,315				

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB; Data Request CSB 2-30  
Column C: Column [A] + Column [B]

Valencia Water Company - Town Division  
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Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-11

**OPERATING INCOME ADJUSTMENT NO. 5 - BAD DEBT EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense	28,944	(22,527)	6,417

References:

Column A: Company Data Request Response CSB 1.26 & RUCO 2.04(e)  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]



Valencia Water Company - Town Division  
Docket No. W-01212A-09-0082  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-12

**OPERATING INCOME ADJUSTMENT NO. 6 - PROPERTY TAX EXPENSE**

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 3,037,462	\$ 3,037,462
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	6,074,924	\$ 6,074,924
4	Staff Recommended Revenue, Per Schedule CSB-1	3,037,462	\$ 4,553,937
5	Subtotal (Line 4 + Line 5)	9,112,386	10,628,861
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	3,037,462	\$ 3,542,954
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	6,074,924	\$ 7,085,907
10	Plus: 10% of CWIP -	415,844	415,844
11	Less: Net Book Value of Licensed Vehicles	96,323	\$ 96,323
12	Full Cash Value (Line 9 + Line 10 - Line 11)	6,394,445	\$ 7,405,428
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	1,342,833	\$ 1,555,140
15	Composite Property Tax Rate	10.6667%	10.6667%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 143,236	\$ -
17	Company Proposed Property Tax	-	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 143,236	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 165,882
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 143,236
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 22,646
22	Increase to Property Tax Expense		\$ 22,646
23	Increase in Revenue Requirement		1,516,475
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.493338%

Valencia Water Company - Town Division  
Docket No. W-01212A-09-0082  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-13

**OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Tax Expense - Test Year	(402,522)	(827)	(403,349)

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 929,057	\$ 929,057
2	Adjusted Operating Income (Loss)	\$ (4,402)	\$ 24,609
3	Current Rate of Return (L2 / L1)	-0.47%	2.65%
4	Required Rate of Return	9.72%	8.10%
5	Required Operating Income (L4 * L1)	\$ 90,304	\$ 75,254
6	Operating Income Deficiency (L5 - L2)	\$ 94,706	\$ 50,644
7	Gross Revenue Conversion Factor	1.64509	1.65286
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 155,800	\$ 83,708
9	Adjusted Test Year Revenue	\$ 336,819	\$ 380,474
10	Proposed Annual Revenue (L8 + L9)	\$ 492,619	\$ 464,182
11	Required Increase/Decrease in Revenue (%) (L8/L9)	46.26%	22.00%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1  
Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-5

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4988%			
5	Subtotal (L3 - L4)	60.5012%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.652861</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (CSB-13, Col. B, L24)	1.4657%			
22	Effective Property Tax Factor (L20*L21)		0.9000%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.4988%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 75,254			
25	Adjusted Test Year Operating Income (Loss) (Sch CSB-5, Line 34)	24,609			
26	Required Increase in Operating Income (L24 - L25)		\$ 50,644		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 26,282			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(5,555)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		31,837		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 464,182			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (CSB-13, Col B, L16)	\$ 18,242			
36	Property Tax on Test Year Revenue (CSB-13, Col A, L18)	17,015			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		1,227		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 83,708		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-5)	\$ 380,474	\$ 83,708	\$ 464,182	
40	Operating Expenses Excluding Income Taxes	\$ 361,420	\$ 1,227	\$ 362,647	
41	Synchronized Interest (L56)	\$ 33,446		\$ 33,446	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (14,392)		\$ 68,089	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (1,003)		\$ 4,744	
45	Federal Taxable Income (L42 - L44)	\$ (13,389)		\$ 63,345	
46	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
47	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
48	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
49	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
50	Federal Tax on All Income (\$0 - \$10,000,000) @ 34%	\$ (4,552)		\$ 21,537	
51	Total Federal Income Tax	\$ (4,552)		\$ 21,537	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (5,555)		\$ 26,282	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 17)	\$ 929,057			
55	Weighted Average Cost of Debt	3.6000%			
56	Synchronized Interest (L45 X L46)	\$ 33,446			

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 2,832,537	\$ 2,832,537
2	Less: Accumulated Depreciation	(898,484)	(898,484)
3	Net Plant in Service	<u>\$ 1,934,053</u>	<u>\$ 1,934,053</u>
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	\$ 747,555	\$ 747,555
5	Service Line and Meter Advances	\$ -	\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 407,979	\$ 407,979
7	Less: Accumulated Amortization	71,396	71,396
8	Net CIAC	<u>\$ 336,583</u>	<u>\$ 336,583</u>
9	Total Advances and Contributions	\$ 1,084,138	\$ 1,084,138
10	Customer Deposits	\$ 11,080	\$ 11,080
11	Accumulated Deferred Income Taxes	\$ -	\$ -
<u>ADD:</u>			
12	Deferred Tax Assets	\$ 90,222	\$ 90,222
13	Working Capital	\$ -	\$ -
14	<b>Total Rate Base</b>	<u><u>\$ 929,057</u></u>	<u><u>\$ 929,057</u></u>

References:

Column [A], Company Schedule B-1, Page 1  
Column [B]: Schedule CSB-4  
Column [C]: Column [A] + Column [B]

**SUMMARY OF RATE BASE ADJUSTMENTS**

LINE NO.		[A]	[B]	[C]
	PLANT IN SERVICE			
	Acct. No. Plant Description	COMPANY AS FILED		STAFF AS ADJUSTED
1				
2	303 Land and Land Rights	\$ 27,898	\$ -	\$ 27,898
3	304 Structures and Improvements	39,169	-	39,169
4	306 Lake, River, and Other Intakes	-	-	-
5	307 Wells and Springs	115,895	-	115,895
6	309 Supply Mains	-	-	-
7	310 Power Generation Equipment	-	-	-
8	311 Pumping Equipment	472,851	-	472,851
9	320 Water Treatment Equipment	729,148	-	729,148
10	330 Distribution Reservoirs and Standpipes	588,545	-	588,545
11	331 Transmission and Distribution Mains	712,346	-	712,346
12	333 Services	37,406	-	37,406
13	334 Meters and Meter Installations	35,389	-	35,389
14	335 Hydrants	40,757	-	40,757
15	336 Backflow Prevention Devices	5,432	-	5,432
16	339 Other Plant and Miscellaneous Equipment	4,284	-	4,284
17	340 Office Furniture and Equipment	-	-	-
18	341 Transportation Equipment	-	-	-
19	343 Tools, Shop, and Garage Equipment	1,650	-	1,650
20	344 Laboratory Equipment	-	-	-
21	345 Power Operated Equipment	-	-	-
22	346 Communication Equipment	4,225	-	4,225
23	347 Miscellaneous Equipment	10,089	-	10,089
24	348 Other Tangible Equipment	7,453	-	7,453
25	Total Plant in Service - Actual	\$ 2,832,537	\$ -	\$ 2,832,537
31	Less: Accumulated Depreciation	\$ (898,484)	\$ -	(898,484)
33	Net Plant in Service	\$ 1,934,053	\$ -	\$ 1,934,053
34				
35	<u>LESS:</u>			
36	Advances in Aid of Construction (AIAC)	\$ 747,555	\$ -	\$ 747,555
38	Service Line and Meter Advances	\$ -	-	\$ -
39				
40	Contributions in Aid of Construction (CIAC)	\$ 407,979	-	\$ 407,979
41	Less: CIAC - Pro Forma	-	-	-
42	Total CIAC - Adjusted	\$ 407,979	\$ -	\$ 407,979
43				
44	Less: Accumulated Amortization	\$ 71,396	-	\$ 71,396
45	Less: Accumulated Amort - Pro Forma	-	-	-
46		\$ 71,396	\$ -	\$ 71,396
47				
48	Net CIAC	\$ 336,583	-	\$ 336,583
49				
50	Total Advances and Net Contributions	\$ 1,084,138	-	\$ 1,084,138
51				
52	Customer Deposits	\$ 11,080	-	\$ 11,080
54	Deferred Tax Liability	\$ -	-	\$ -
55				
56	<u>ADD:</u>			
57	Deferred Tax Asset	\$ 90,222	-	\$ 90,222
58	Working Capital Allowance	\$ -	-	\$ -
59	Total Rate Base	\$ 929,057	\$ -	\$ 929,057

**OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED**

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR ADJ AS NO. ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED	
<u>REVENUES:</u>							
1	Metered Water Sales	\$ 322,780	\$ 43,655	1	\$ 366,435	\$ 83,708	\$ 450,143
2	Water Sales - Unmetered	-	-		-		-
3	Other Operating Revenues	14,039	-		14,039	-	14,039
4	<b>Total Revenues</b>	<b>\$ 336,819</b>	<b>\$ 43,655</b>		<b>\$ 380,474</b>	<b>\$ 83,708</b>	<b>\$ 464,182</b>
<u>EXPENSES:</u>							
7	Salaries and Wages - Employees	\$ 76,217	\$ (76,217)	2	\$ -	\$ -	\$ -
8	Employee Pensions and Benefits	16,164	(16,164)	2	-		-
9	Purchased Water	52,085	-		52,085		52,085
10	Purchased Power	22,565	4,429	1	26,994		26,994
11	Fuel for Power Production	-	-		-		-
12	Chemicals	10,761	2,282	1	13,043		13,043
13	Materials and Supplies - Acct No. 620	4,236	-		4,236		4,236
14	Materials and Supplies - Acct No. 620.08	16,551	-	3	16,551		16,551
15	Contractual Services - Management Fees	-	85,365	2,4	85,365		85,365
16	Contractual Services - Testing	-	3,774	5	3,774		3,774
17	Contractual Services - Other	3,774	(3,774)	5	-		-
18	Rental of Building/Real Property	593	-		593		593
19	Rental of Equipment	3,686	-		3,686		3,686
20	Transportation Expense	56	-		56		56
21	Insurance - General Liability	9,876	-		9,876		9,876
22	Insurance - Other	2,073	-		2,073		2,073
23	Advertising Expense	-	-		-		-
24	Rate Case Expense	1,355	-		1,355		1,355
25	Bad Debt Expense	3,368	(2,214)	6	1,154		1,154
26	Miscellaneous Expense	6,644	-		6,644		6,644
27	Depreciation Expense	113,580	-		113,580		113,580
28	Taxes Other Than Income-Utility Regulatory	3,340	-		3,340		3,340
29	Taxes Other Than Income-Property Taxes	-	17,015	7	17,015	1,227	18,242
30	Taxes Other Than Income-Other	-	-		-		-
31	Income Taxes	(5,703)	148	8	(5,555)	31,837	26,282
32	<b>Total Operating Expenses</b>	<b>\$ 341,221</b>	<b>\$ 14,644</b>		<b>\$ 355,865</b>	<b>\$ 33,064</b>	<b>\$ 388,929</b>
33							
34	<b>Operating Income (Loss)</b>	<b>\$ (4,402)</b>	<b>\$ 29,011</b>		<b>\$ 24,609</b>	<b>\$ 50,644</b>	<b>\$ 75,254</b>

**References:**

Column (A): Company Schedule C-1, Page 2  
Column (B): Schedule CSB-6  
Column (C): Column (A) + Column (B)  
Column (D): Schedules CSB-1 and CSB-2  
Column (E): Column (C) + Column (D)

**SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR**

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Revenue and Expense Annualization Ref. Sch CSB-7	[C] ADJ #2 Salaries, Wages, Pensions, & Benefits Ref. Sch CSB-8	[D] ADJ #3 Materials & Supplies Acct No. 620.08 Ref. Sch CSB-9	[F] ADJ #4 Contract Svcs Management Fees Ref. Sch CSB-10	[G] ADJ #5 Contract Svcs Water Testing Ref. Sch CSB-11	[H] ADJ #6 Bad Debt Expense Ref. Sch CSB-12	[I] ADJ #7 Property Tax Exp Ref. Sch CSB-13	[J] ADJ #8 Income Tax Expense Ref. Sch CSB-14	[K] STAFF ADJUSTED
1		Metered Water Sales	\$ 322,780	\$ 43,655								\$ 366,435
2		Water Sales - Unmetered										
3		Other Operating Revenues	14,039									14,039
4		<b>Total Revenues</b>	<b>\$ 336,819</b>	<b>\$ 43,655</b>								<b>\$ 380,474</b>
5												
6		<b>OPERATING EXPENSES:</b>										
7	601	Salaries and Wages - Employees	\$ 76,217		(76,217)							
8	604	Employee Pensions and Benefits	16,164		(16,164)							
9	610	Purchased Water	52,085									52,085
10	615	Purchased Power	22,565	4,429								26,994
11	616	Fuel for Power Production										
12	618	Chemicals	10,761	2,282								13,043
13	620	Materials and Supplies	4,236									4,236
14	620.08	Materials and Supplies	16,551									16,551
15	634	Contractual Services - Management Fees			92,381		(7,016)					85,365
16	635	Contractual Services - Testing					3,774 (3,774)					3,774
17	636	Contractual Services - Other	3,774									593
18	641	Rental of Building/Real Property	593									3,686
19	642	Rental of Equipment	3,686									56
20	650	Transportation Expense	56									9,876
21	657	Insurance - General Liability	9,876									2,073
22	659	Insurance - Other	2,073									
23	660	Advertising Expense										1,355
24	667	Rate Case Expense										3,368
25	670	Bad Debt Expense							(2,214)			6,644
26	675	Miscellaneous Expense										113,580
27	403	Depreciation Expense	113,580									3,340
28	408	Taxes Other Than Income-Utility Regulatory										
29	408.11	Taxes Other Than Income-Property Taxes	3,340							17,015		17,015
30	408.13	Taxes Other Than Income-Other										
31	409	Income Taxes	(5,703)								148	(5,555)
32		<b>Total Operating Expenses</b>	<b>\$ 341,221</b>	<b>\$ 6,711</b>			<b>\$ (7,016)</b>		<b>\$ (2,214)</b>	<b>\$ 17,015</b>	<b>\$ 148</b>	<b>\$ 355,865</b>
33												
34		<b>Operating Income (Loss)</b>	<b>\$ (4,402)</b>	<b>\$ 36,944</b>			<b>\$ 7,016</b>		<b>\$ 2,214</b>	<b>\$ (17,015)</b>	<b>\$ (148)</b>	<b>\$ 24,609</b>



**OPERATING INCOME ADJUSTMENT NO. 1 - REVENUE AND EXPENSE ANNUALIZATION**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Metered Water Sales - Actual	\$	365,114	\$	-	\$	365,114
2	Unbilled Revenue		1,321		-		1,321
3	Revenue Annualization to Metered Water Sales		(43,655)		43,655		-
4	Total	\$	322,780	\$	43,655	\$	366,435
5							
6	Purchased Pumping Power - Actual	\$	26,107	\$	-	\$	26,107
7	APS Interim Rate Increase		888		-		888
8	Annualization Adjustment to Pumping Power		(4,429)		4,429		-
9		\$	22,566	\$	4,429	\$	26,995
10							
11	Chemicals - Actual	\$	13,043	\$	-	\$	13,043
12	Annualization Adjustment to Chemicals		(2,282)	\$	2,282		
13		\$	10,761	\$	2,282	\$	13,043
14							
15	Operating Income	\$	289,453	\$	36,944	\$	326,397

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 2 - SALARIES, WAGES, PENSIONS, & BENEFITS**

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Salaries and Wage Expense	\$ 76,217	\$ (76,217)	\$ -
2	Pension and Benefits	16,164	(16,164)	-
3		\$ 92,381	\$ (92,381)	\$ -
4				
5	Contractual Services - Management Fees	\$ -	\$ 92,381	\$ 92,381

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 3 - MATERIALS AND SUPPLIES, ACCT NO. 620.08**

LINE NO.	DESCRIPTION	[A]			[B]		[C]	
		COMPANY AS FILED			STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Materials and Supplies, Acct No 620.08	16,551			\$	-	\$	16,551
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								

Materials and  
Supplies  
Acct No. 620.08

2006	\$	1,704	Company Sch E-2
2007	\$	-	Company Sch E-2
2008	\$	16,551	Company Sch E-2
	\$	18,255	
Divided by 3		3	
	\$	6,085	

References:

Column A: Company Schedule C-1 & E-2  
Column B: Testimony, CSB; Data Request CSB 15-1  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACTUAL SERVICES, MANAGEMENT FEES**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services - Management Fees	\$ -	\$ (7,016)	\$ (7,016)
2				
3				
4	Bonuses (Indirect Allocation)	\$ -	Data Request Response CSB 2-30	
5	Bonuses (Direct Allocation)	2,290	From Trial Balance	
6	Kitchen Supplies	324	From Trial Balance	
7		<u>\$ 2,614</u>		
8				
9	Employee Moving & Hiring	\$ 52	From Trial Balance	
10	Employee Training & Certification	739	From Trial Balance	
11	Employee Travel	7,874	From Trial Balance	
12	Employee Meals	139	From Trial Balance	
13		<u>8,804</u>		
14	Divided by 2 years	2		
15		<u>\$ 4,402</u>		
16				
17	Total (Line 7 + Line 15)	\$ 7,016		

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB; Data Request CSB 2-30  
Column C: Column [A] + Column [B]

Valencia Water Company - Greater Buckeye Division  
Docket No. W-02451A-09-0078  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-11

**OPERATING INCOME ADJUSTMENT NO. 5 - CONTRACTUAL SERVICES WATER TESTING EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing Expense	-	3,774	3,774
2	Contractual Services - Other	3,774	(3,774)	-

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

Valencia Water Company - Greater Buckeye Division  
Docket No. W-02451A-09-0078  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-12

**OPERATING INCOME ADJUSTMENT NO. 6 - BAD DEBT EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense	3,368	(2,214)	1,154

References:

Column A: Company Data Request Response CSB 1.26 & RUCO 2.04(e)  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

Valencia Water Company - Greater Buckeye Division  
Docket No. W-02451A-09-0078  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-13

**OPERATING INCOME ADJUSTMENT No. 7 - Property Tax Expense**

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 380,474	\$ 380,474
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	760,948	\$ 760,948
4	Staff Recommended Revenue, Per Schedule CSB-1	380,474	\$ 464,182
5	Subtotal (Line 4 + Line 5)	1,141,422	1,225,130
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	380,474	\$ 408,377
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	760,948	\$ 816,753
10	Plus: 10% of CWIP -	12,969	12,969
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	773,917	\$ 829,722
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	162,523	\$ 174,242
15	Composite Property Tax Rate	10.4693%	10.4693%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 17,015	\$ -
17	Company Proposed Property Tax	-	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 17,015	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 18,242
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 17,015
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 1,227
22	Increase to Property Tax Expense		\$ 1,227
23	Increase in Revenue Requirement		83,708
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.465702%

Valencia Water Company - Greater Buckeye Division  
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Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-14

**OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Tax Expense - Test Year	(5,703)	148	(5,555)

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]



**REVENUE REQUIREMENT**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Adjusted Rate Base	\$ 2,598,259	\$ (4,186,150)
2	Adjusted Operating Income (Loss)	\$ (153,369)	\$ 33,121
3	Current Rate of Return (L2 / L1)	-5.90%	Not Meaningful
4a	Required Rate of Return - Per Company	9.94%	Not Applicable
4b	Required Operating Margin Percentage - Per Staff	Not Applicable	10.00%
5a	Required Operating Income (L4a * L1) - Per Company	\$ 258,267	Not Applicable
5b	Required Operating Margin (L4b * L10) - Per Staff	Not Applicable	24,561
6	Operating Income Deficiency (L5 - L2)	\$ 411,636	\$ (8,560)
7	Gross Revenue Conversion Factor	1.64509	1.64724
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 677,177	\$ (14,100)
9	Adjusted Test Year Revenue	\$ 259,304	\$ 259,304
10	Proposed Annual Revenue (L8 + L9)	\$ 936,481	\$ 245,204
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	261.15%	-5.44%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1  
Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-7

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.2923%			
5	Subtotal (L3 - L4)	60.7077%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.647238</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (CSB-15, Col B, L24)	1.1293%			
22	Effective Property Tax Factor (L20*L21)		0.6934%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.2923%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 24,561			
25	Adjusted Test Year Operating Income (Loss) (Sch CSB-7, Col C, L34)	33,121			
26	Required Increase in Operating Income (L24 - L25)		\$ (8,560)		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 15,440			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	20,821			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(5,381)		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 245,204			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (CSB-15, Col B, L16)	\$ 8,830			
36	Property Tax on Test Year Revenue (CSB-15, Col A, L19)	8,989			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		(159)		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ (14,100)		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-11, Col. [C], Line 5 & Sch. CSB-1, Col. [D] Line	\$ 259,304	\$ (14,100)	\$ 245,204	
40	Operating Expenses Excluding Income Taxes	\$ 205,362	\$ (159)	\$ 205,203	
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 53,942		\$ 40,001	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 3,759		\$ 2,787	
45	Federal Taxable Income (L42 - L44)	\$ 50,183		\$ 37,214	
46	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
47	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
48	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
49	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
50	Federal Tax on All Income (\$0 - \$10,000,000) @ 34%	\$ 17,062		\$ 12,653	
51	Total Federal Income Tax	\$ 17,062		\$ 12,653	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 20,821		\$ 15,440	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14	\$ (4,186,150)			
55	Weighted Average Cost of Debt	0.0000%			
56	Synchronized Interest (L45 X L46)	\$ -			

**RATE BASE - ORIGINAL COST**

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 4,764,593	\$ -		\$ 4,764,593
2	Less: Accumulated Depreciation	(952,778)	-		(952,778)
3	Net Plant in Service	<u>\$ 3,811,815</u>	<u>\$ -</u>		<u>\$ 3,811,815</u>
	<u>LESS:</u>				
4	Advances in Aid of Construction (AIAC)	\$ 1,244,686	\$ -		\$ 1,244,686
5	Service Line and Meter Advances	\$ -	\$ -		\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 73,118	\$ 7,085,645	1	\$ 7,158,763
7	Less: Accumulated Amortization	8,130	301,236	2	309,366
8	Net CIAC	<u>\$ 64,988</u>	<u>6,784,409</u>		<u>\$ 6,849,397</u>
9	Total Advances and Contributions	\$ 1,309,674	\$ 6,784,409		\$ 8,094,083
10	Customer Deposits	\$ 11,537	\$ -		\$ 11,537
11	Accumulated Deferred Income Taxes	\$ -	\$ -		\$ -
	<u>ADD:</u>				
12	Deferred Tax Asset	\$ 107,655	\$ -		\$ 107,655
13	Working Capital	\$ -	\$ -		\$ -
14	<b>Total Rate Base</b>	<u>\$ 2,598,259</u>	<u>\$ (6,784,409)</u>		<u>\$ (4,186,150)</u>

References:

Column [A], Company Schedule B-1, Page 1  
Column [B]: Schedule CSB-4  
Column [C]: Column [A] + Column [B]

**SUMMARY OF RATE BASE ADJUSTMENTS**

LINE NO.		[A]	[B]	[C]	[D]
	PLANT IN SERVICE		Adj No. 1	ADJ No. 2	
	Acct. No. Plant Description	COMPANY AS FILED	CIAC Ref. Sch CSB-5	Accumulated Amort of CIAC Ref. Sch CSB-6	STAFF AS ADJUSTED
1					
2	303 Land and Land Rights	\$ 66,651	\$ -	\$ -	\$ 66,651
3	304 Structures and Improvements	46,704	-	-	46,704
4	306 Lake, River, and Other Intakes	-	-	-	-
5	307 Wells and Springs	299,601	-	-	299,601
6	309 Supply Mains	-	-	-	-
7	310 Power Generation Equipment	-	-	-	-
8	311 Pumping Equipment	1,638,498	-	-	1,638,498
9	320 Water Treatment Equipment	1,348,884	-	-	1,348,884
10	330 Distribution Reservoirs and Standpipes	180,350	-	-	180,350
11	331 Transmission and Distribution Mains	880,279	-	-	880,279
12	333 Services	40,356	-	-	40,356
13	334 Meters and Meter Installations	57,148	-	-	57,148
14	335 Hydrants	38,386	-	-	38,386
15	336 Backflow Prevention Devices	5,894	-	-	5,894
16	339 Other Plant and Miscellaneous Equipment	3,543	-	-	3,543
17	340 Office Furniture and Equipment	-	-	-	-
18	341 Transportation Equipment	32,617	-	-	32,617
19	343 Tools, Shop, and Garage Equipment	1,123	-	-	1,123
20	344 Laboratory Equipment	663	-	-	663
21	345 Power Operated Equipment	838	-	-	838
22	346 Communication Equipment	12,408	-	-	12,408
23	347 Miscellaneous Equipment	5,436	-	-	5,436
24	348 Other Tangible Equipment	105,214	-	-	105,214
25	Total Plant in Service - Actual	\$ 4,764,593	\$ -	\$ -	\$ 4,764,593
26	Less: Accumulated Depreciation	\$ (952,778)	\$ -	\$ -	\$ (952,778)
27	Net Plant in Service	\$ 3,811,815	\$ -	\$ -	\$ 3,811,815
28					
29	<u>LESS:</u>				
30	Advances in Aid of Construction (AIAC)	\$ 1,244,686	\$ -	\$ -	\$ 1,244,686
31	Service Line and Meter Advances	\$ -	-	-	\$ -
32					
33	Contributions in Aid of Construction (CIAC)	\$ 73,118	-	-	\$ 73,118
34	CIAC/ICFAS - Plant	-	4,691,475	-	4,691,475
35	CIAC/ICFAS - Other	-	2,394,170	-	2,394,170
36	Total CIAC - Adjusted	\$ 73,118	\$ 7,085,645	\$ -	\$ 7,158,763
37					
38	Less: Accumulated Amortization of CIAC	\$ 8,130	-	-	\$ 8,130
39	Accum Amort of CIAC / ICFAs - Plant	-	-	301,236	301,236
40	Total Accumulated Amortization of CIAC	\$ 8,130	\$ -	\$ 301,236	\$ 309,366
41					
42	Net CIAC	\$ 64,988	7,085,645	(301,236)	\$ 6,849,397
43					
44	Total Advances and Net Contributions	\$ 1,309,674	\$ 7,085,645	\$ (301,236)	\$ 8,094,083
45					
46	Customer Deposits	\$ 11,537	-	-	\$ 11,537
47	Accumulated Deferred Taxes	\$ -	-	-	\$ -
48					
49	<u>ADD:</u>				
50	Deferred Tax Asset	\$ 107,655	-	-	\$ 107,655
51	Working Capital Allowance	\$ -	-	-	\$ -
52	Total Rate Base	\$ 2,598,259	\$ (7,085,645)	\$ 301,236	\$ (4,186,150)

Water Utility of Greater Tonopah  
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Surrebuttal Schedule CSB-5

**RATE BASE ADJUSTMENT NO. 1 - CONTRIBUTION IN AID OF CONSTRUCTION, ICFAS**

LINE NO.	DESCRIPTION	[A]	[B]	[C]	
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	
1	CIAC/ICFAS - Plant	\$ -	4,691,475	\$ 4,691,475	See calculation below
2	CIAC/ICFAS - Other		2,394,170	2,394,170	
3	Total CIAC/ICFAS	\$ -	\$ 7,085,645	\$ 7,085,645	

Calculation of	
CIAC/ICFAS - Plant	
Test Year Plant	\$ 4,764,593
Less: Test Year CIAC	\$ (73,118)
CIAC/ICFAS - Plant	\$ 4,691,475

References:

Column [A]: Company Schedule B-2  
Column [B]: Testimony, CSB  
Column [C]: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED AMORTIZATION OF CIAC/ ICFAS**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Accumulated Amortization of CIAC/ICFA	\$	-	\$	301,236	\$	301,236
2							
3							
4							
5							
6	2006 Beginning CIAC/ICFA Balance	\$	-				
7	CIAC/ICFA Amort Rate			4.82%	From Line 43, Col I		
8	2006 Amort on Beginning Balance		-				
9							
10	2006 CIAC/ICFA Addition	\$	1,310,252		Line 43, Col E - \$73,118 (TY CIAC)		
11	CIAC/ICFA Amort Rate (Half Year Convention)			2.41%	From Line 43, Col I divided by 2		
12	2006 Amort on CIAC/ICFA Addition		31,577				
13							
14	2006 Ending Accu Amort of CIAC Balance (L8+ L12)	\$	31,577				
15							
16	2007 Beginning CIAC/ICFA Balance	\$	1,310,252		Line 6 + Line 10		
17	CIAC/ICFA Amort Rate			2.99%	From Line 44, Col I		
18	2007 Amort on Beginning Balance		39,177				
19							
20	2007 CIAC/ICFA Addition	\$	2,718,545		Col E Line 44 - Col E Line 43		
21	CIAC/ICFA Amort Rate (Half Year Convention)			1.49%	From Line 44, Col I divided by 2		
22	2007 Amort on CIAC/ICFA Addition		40,506				
23							
24	2007 Ending Accu Amort of CIAC Balance (L14+L18+L22)	\$	111,260				
25							
26	2008 Beginning CIAC/ICFA Balance	\$	4,028,797		Line 16 + Line 20		
27	CIAC/ICFA Amort Rate			4.36%	From Line 45		
28	2008 Amort on Beginning Balance		175,656				
29							
30	2008 CIAC/ICFA Addition		662,678		Col E Line 45 - Col E Line 44		
31	CIAC/ICFA Amort Rate (Half Year Convention)			2.18%	From Line 45, Col I divided by 2		
32	2008 Amort on CIAC/ICFA Addition		14,446				
33							
34	2008 Ending Accu Amort of CIAC Balance	\$	301,362		Line 24+ Line 28 + Line 32		
35	To Reconcile to Sch CSB-4, Line 39 and Sch CSB-14, Line 30	\$	(126)				
36	2008 Ending Accu Amort of CIAC Balance	\$	301,236				

[D] [E] [F] [G] [H] [I]					
Calculation of CIAC/ICFA Amortization Rate					
Year	Tonopah Gross Plant <sup>1</sup>	Tonopah Land & Land Rights <sup>1</sup>	Depreciable Plant <sup>1</sup> Col E - Col F	Tonopah Depreciation Expense <sup>1</sup>	CIAC Amortization Rate Col H / Col G
2006	\$1,383,370	\$ 66,651	\$ 1,316,719	\$ 63,404	4.82%
2007	\$4,101,915	\$ 66,651	\$ 4,035,264	\$ 120,514	2.99%
2008	\$4,764,593	\$ 66,651	\$ 4,697,942	\$ 204,599	4.36%

<sup>1</sup> From Company provided Plant Additions, Retirements, and Accum Depreciation Schedule

**OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED**

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR ADJ AS NO. ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<b>REVENUES:</b>						
1	Metered Water Sales	\$ 250,201	\$ -	\$ 250,201	\$ (14,100)	\$ 236,101
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	9,103	-	9,103	-	9,103
4	<b>Total Revenues</b>	<b>\$ 259,304</b>	<b>\$ -</b>	<b>\$ 259,304</b>	<b>\$ (14,100)</b>	<b>\$ 245,204</b>
<b>EXPENSES:</b>						
7	Salaries and Wages - Employees	\$ 48,385	\$ (48,385)	1 \$ -	\$ -	\$ -
8	Employee Pensions and Benefits	10,309	(10,309)	1 -	-	-
9	Purchased Water	-	-	-	-	-
10	Purchased Power	16,192	(372)	4 15,820	-	15,820
11	Fuel for Power Production	-	-	-	-	-
12	Chemicals	31,128	-	31,128	-	31,128
13	Materials and Supplies - Acct. No. 620	12,609	-	12,609	-	12,609
14	Materials and Supplies - Acct. No. 620.08	10,278	-	2 10,278	-	10,278
15	Contractual Services - Management Fees	-	54,066	1,3 54,066	-	54,066
16	Contractual Services - Testing	11,006	-	11,006	-	11,006
17	Contractual Services - Other	34,683	-	34,683	-	34,683
18	Rental of Building/Real Property	2,075	-	2,075	-	2,075
19	Rental of Equipment	732	-	732	-	732
20	Transportation Expense	6,965	-	6,965	-	6,965
21	Insurance - General Liability	1,167	-	1,167	-	1,167
22	Insurance - Other	216	-	216	-	216
23	Advertising Expense	-	-	-	-	-
24	Rate Case Expense	1,333	-	1,333	-	1,333
25	Bad Debt Expense	2,593	(1,729)	5 864	-	864
26	Miscellaneous Expense	4,474	-	4,474	-	4,474
27	Depreciation Expense	307,538	(307,538)	6 0	-	0
28	Taxes Other Than Income-Utility Regulatory	8,614	-	8,614	-	8,614
29	Taxes Other Than Income-Property Taxes	-	8,989	7 8,989	(159)	8,830
30	Taxes Other Than Income-Other	344	-	344	-	344
31	Income Taxes	(97,968)	118,789	8 20,821	(5,381)	15,440
32	<b>Total Operating Expenses</b>	<b>\$ 412,673</b>	<b>\$ (186,490)</b>	<b>\$ 226,183</b>	<b>\$ (5,540)</b>	<b>\$ 220,643</b>
33						
34	<b>Operating Income (Loss)</b>	<b>\$ (153,369)</b>	<b>\$ 186,490</b>	<b>\$ 33,121</b>	<b>\$ (8,560)</b>	<b>\$ 24,561</b>

References:

Column (A): Company Schedule C-1, Page 2  
Column (B): Schedule CSB-8  
Column (C): Column (A) + Column (B)  
Column (D): Schedules CSB-1 and CSB-2  
Column (E): Column (C) + Column (D)

## SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Salaries, Wages & Benefits	[C] ADJ #2 Materials & Supplies	[D] ADJ #3 Contract Svcs Management Fees	[E] ADJ #4 Purchased Power	[F] ADJ #5 Bad Debt Expense	[G] ADJ #6 Depreciation Expense	[H] ADJ #7 Property Taxes	[I] ADJ #8 Income Taxes	[J] STAFF ADJUSTED
		<b>REVENUES:</b>										
1		Metered Water Sales	\$ 250,201	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2		Water Sales - Unmetered	-	-	-	-	-	-	-	-	-	-
3		Other Operating Revenues	-	-	-	-	-	-	-	-	-	-
4		<b>Total Revenues</b>	\$ 259,304	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250,201
5												9,103
6		<b>OPERATING EXPENSES:</b>										259,304
7	601	Salaries and Wages - Employees	\$ 48,385	(48,385)	-	-	-	-	-	-	-	-
8	604	Employee Pensions and Benefits	10,309	(10,309)	-	-	-	-	-	-	-	-
9	610	Purchased Water	-	-	-	-	-	-	-	-	-	-
10	615	Purchased Power	16,192	-	-	-	(372)	-	-	-	-	15,820
11	616	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-
12	618	Chemicals	31,128	-	-	-	-	-	-	-	-	31,128
13	620	Materials and Supplies	12,609	-	-	-	-	-	-	-	-	12,609
14	620.08	Materials and Supplies	10,278	-	-	-	-	-	-	-	-	10,278
15	634	Contractual Services - Management Fees	-	58,694	-	(4,629)	-	-	-	-	-	54,066
16	635	Contractual Services - Testing	11,006	-	-	-	-	-	-	-	-	11,006
17	636	Contractual Services - Other	34,683	-	-	-	-	-	-	-	-	34,683
18	641	Rental of Building/Real Property	2,075	-	-	-	-	-	-	-	-	2,075
19	642	Rental of Equipment	732	-	-	-	-	-	-	-	-	732
20	650	Transportation Expense	6,965	-	-	-	-	-	-	-	-	6,965
21	657	Insurance - General Liability	1,167	-	-	-	-	-	-	-	-	1,167
22	659	Insurance - Other	216	-	-	-	-	-	-	-	-	216
23	660	Advertising Expense	-	-	-	-	-	-	-	-	-	-
24	667	Rate Case Expense	1,333	-	-	-	-	-	-	-	-	1,333
25	670	Bad Debt Expense	2,593	-	-	-	-	(1,729)	-	-	-	864
26	675	Miscellaneous Expense	4,474	-	-	-	-	-	-	-	-	4,474
27	403	Depreciation Expense	307,538	-	-	-	-	-	(307,538)	-	-	0
28	408	Taxes Other Than Income-Utility Regulatory	8,614	-	-	-	-	-	-	-	-	8,614
29	408.11	Taxes Other Than Income-Property Taxes	-	-	-	-	-	-	-	8,989	-	8,989
30	408.13	Taxes Other Than Income-Other	-	-	-	-	-	-	-	-	-	344
31	409	Income Taxes	(97,968)	-	-	-	-	-	-	-	118,789	20,821
32		<b>Total Operating Expenses</b>	\$ 412,673	\$ -	\$ -	\$ (4,629)	\$ (372)	\$ (1,729)	\$ (307,538)	\$ 8,989	\$ 118,789	\$ 226,183
33												
34		<b>Operating Income (Loss)</b>	\$ (153,369)	\$ -	\$ -	\$ 4,629	\$ 372	\$ 1,729	\$ 307,538	\$ (8,989)	\$ (118,789)	\$ 33,121



**OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES, WAGES, PENSIONS, & BENEFITS**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Salaries and Wage Expense	\$	48,385	\$	(48,385)	\$	-
2	Pension and Benefits		10,309	\$	(10,309)	\$	-
3		\$	58,694	\$	(58,694)	\$	-
4							
5	Contractual Services - Management Fees	\$	-	\$	58,694	\$	58,694

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 2 - MATERIALS AND SUPPLIES, ACCT NO. 620.08**

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Materials and Supplies, Acct No 620.08	10,278	\$ -	\$ 10,278

Materials and Supplies Acct No. 620.08		
2006	\$ 2,379	Company Sch E-2
2007	\$ -	Company Sch E-2
2008	\$ 10,278	Company Sch E-2
	<u>\$ 12,657</u>	
Divided by 3	3	
	<u>\$ 4,219</u>	

References:

Column A: Company Schedule C-1 & E-2  
Column B: Testimony, CSB; Data Request CSB 15-1  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 3 - CONTACTUAL SERVICES, MANAGEMENT FEES**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Contractual Services - Management Fees	\$	-	\$	(4,629)	\$	(4,629)
2							
3							
4	Bonuses (Indirect Allocation)	\$	-	Data Request Response CSB 2-33			
5	Bonuses (Direct Allocation)		1,312	From Trial Balance			
6	Kitchen Supplies		223	From Trial Balance			
7		\$	1,535				
8							
9							
10	Employee Moving & Hiring	\$	32	From Trial Balance			
11	Employee Training & Certification		517	From Trial Balance			
12	Employee Travel		5,539	From Trial Balance			
13	Employee Meals		99	From Trial Balance			
14			6,187				
15	Divided by 2 years		2				
16		\$	3,094				
17							
18	Total (Line 7 + Line 16)	\$	4,629				

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 4 - PURCHASED POWER**

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Purchased Power	16,192	\$ (372)	\$ 15,820

Company's Rebuttal - Moe, P. 6	
Water System	Weighted Water loss (%)

Garden City, PWS #07-037	1.3%
Roseview, PWS #07-082	0.5%
WPE #1, PWS #N/A	0.4%
WPE #6, PWS #07-733	1.7%
Tufte, PWS #07-617	0.2%
Buckeye Ranch, PWS #07-618	3.2%
Dixie, PWS #07-030	3.7%
Sunshine, PWS #07-071	1.4%
	<u>12.3%</u>

Weighted Average Water Loss	12.3%
Less: Water Loss Allowed by Staff Engineering	10.0%
Water Loss Percentage Exceeding Maximum Allowed	<u>2.3%</u>
Water Loss Percentage Exceeding Maximum Allowed	2.3%
Multiplied by Purchased Pumping Power Expense	16,192
Amount Disallowed	<u>\$ 372</u>

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

Water Utility of Greater Tonopah  
Docket No. W-02450A-09-0081  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-13

**OPERATING INCOME ADJUSTMENT NO. 5 - BAD DEBT EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense	2,593	(1,729)	864

References:

Column A: Company Data Request Response CSB 1.26 & RUCO 2.04(e)  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	303 Land and Land Rights	\$ 66,651	\$ (66,651)	\$ 133,302	0.00%	\$ -
2	304 Structures and Improvements	46,704	-	46,704	3.33%	1,555
3	306 Lake, River, and Other Intakes	-	-	-	2.50%	-
4	307 Wells and Springs	299,601	-	299,601	3.33%	9,977
5	309 Supply Mains	-	-	-	2.00%	-
6	310 Power Generation Equipment	-	-	-	5.00%	-
7	311 Pumping Equipment	1,638,498	-	1,638,498	12.50%	204,812
8	320 Water Treatment Equipment	1,348,884	-	1,348,884	3.33%	44,918
9	330 Distribution Reservoirs and Standpipes	180,350	-	180,350	2.22%	4,004
10	331 Transmission and Distribution Mains	880,279	-	880,279	2.00%	17,606
11	333 Services	40,356	-	40,356	3.33%	1,344
12	334 Meters and Meter Installations	57,148	-	57,148	8.33%	4,760
13	335 Hydrants	38,386	-	38,386	2.00%	768
14	336 Backflow Prevention Devices	5,894	-	5,894	6.67%	393
15	339 Other Plant and Miscellaneous Equipment	3,543	-	3,543	6.67%	236
16	340 Office Furniture and Equipment	-	-	-	6.67%	-
17	341 Transportation Equipment	32,617	-	32,617	20.00%	6,523
18	343 Tools, Shop, and Garage Equipment	1,123	-	1,123	5.00%	56
19	344 Laboratory Equipment	663	-	663	10.00%	66
20	345 Power Operated Equipment	838	-	838	5.00%	42
21	346 Communication Equipment	12,408	-	12,408	10.00%	1,241
22	347 Miscellaneous Equipment	5,436	-	5,436	10.00%	544
23	348 Other Tangible Equipment	105,214	-	105,214	10.00%	10,521
24	Total Plant	\$ 4,764,593	\$ -	\$ 4,831,244		\$ 309,366
25						
29						
30						
31	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	6.40%				
32	CIAC:	\$ 7,158,763				
33	Amortization of CIAC (Line 31 x Line 32):	\$ 458,408				
34	Less: Amount to Reconcile to \$309,366 in Depreciation Expense	\$ 149,042				
35	Staff's Adjusted Amortization of CIAC	\$ 309,366				
36						
37	Depreciation Expense Before Amortization of CIAC:	\$ 309,366				
38	Less Amortization of CIAC:	\$ 309,366				
39	Test Year Depreciation Expense - Staff:	\$ 0				
40	Depreciation Expense - Company:	\$ 307,538				
41	Staff's Total Adjustment:	\$ (307,538)				

References:

Column [A]: Schedule CSB-4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

**OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE**

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 259,304	\$ 259,304
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	518,608	\$ 518,608
4	Staff Recommended Revenue, Per Schedule CSB-1	<u>259,304</u>	\$ 245,204
5	Subtotal (Line 4 + Line 5)	777,912	763,812
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	259,304	\$ 254,604
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	518,608	\$ 509,208
10	Plus: 10% of CWIP -	42,191	42,191
11	Less: Net Book Value of Licensed Vehicles	30,171	\$ 30,171
12	Full Cash Value (Line 9 + Line 10 - Line 11)	530,628	\$ 521,228
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	111,432	\$ 109,458
15	Composite Property Tax Rate	<u>8.0667%</u>	<u>8.0667%</u>
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 8,989	
17	Company Proposed Property Tax	<u>-</u>	
18	Staff Test Year Adjustment (Line 16-Line 17)	<u>\$ 8,989</u>	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 8,830
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 8,989
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		<u>\$ (159)</u>
22	Increase to Property Tax Expense		\$ (159)
23	Increase in Revenue Requirement		(14,100)
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.129338%

Water Utility of Greater Tonopah  
Docket No. W-02450A-09-0081  
Test Year Ended December 31, 2008

Surrebuttal Schedule CSB-16

**OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Tax Expense - Test Year	(97,968)	118,789	20,821

References:

Column A: Company Schedule C-1  
Column B: Testimony, CSB  
Column C: Column [A] + Column [B]



**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
GLOBAL WATER-PALO VERDE UTILITIES )  
COMPANY FOR THE ESTABLISHMENT OF )  
JUST AND REASONABLE RATES AND )  
CHARGES FOR UTILITY SERVICE DESIGNED )  
TO REALIZE A REASONABLE RATE OF )  
RETURN ON THE FAIR VALUE OF ITS )  
PROPERTY THROUGHOUT THE STATE OF )  
ARIZONA )

DOCKET NO. SW-20445A-09-0077

IN THE MATTER OF THE APPLICATION OF )  
VALENCIA WATER COMPANY-GREATER )  
BUCKEYE DIVISION FOR THE )  
ESTABLISHMENT OF JUST AND )  
REASONABLE RATES AND CHARGES FOR )  
UTILITY SERVICE DESIGNED TO REALIZE )  
A REASONABLE RATE OF RETURN ON )  
THE FAIR VALUE OF ITS PROPERTY )  
THROUGHOUT THE STATE OF ARIZONA )

DOCKET NO. W-02451A-09-0078

IN THE MATTER OF THE APPLICATION OF )  
WILLOW VALLEY WATER COMPANY FOR )  
THE ESTABLISHMENT OF JUST AND )  
REASONABLE RATES AND CHARGES FOR )  
UTILITY SERVICE DESIGNED TO REALIZE A )  
REASONABLE RATE OF RETURN ON THE )  
FAIR VALUE OF ITS PROPERTY )  
THROUGHOUT THE STATE OF ARIZONA )

DOCKET NO. W-01732A-09-0079

IN THE MATTER OF THE APPLICATION OF )  
GLOBAL WATER-SANTA CRUZ WATER )  
COMPANY FOR THE ESTABLISHMENT OF )  
JUST AND REASONABLE RATES AND )  
CHARGES FOR UTILITY SERVICE DESIGNED )  
TO REALIZE A REASONABLE RATE OF )  
RETURN ON THE FAIR VALUE OF ITS )  
PROPERTY THROUGHOUT THE STATE OF )  
ARIZONA )

DOCKET NO. W-20446A-09-0080

IN THE MATTER OF THE APPLICATION OF )  
WATER UTILITY OF GREATER TONOPAH )  
FOR THE ESTABLISHMENT OF JUST AND )  
REASONABLE RATES AND CHARGES FOR )  
UTILITY SERVICE DESIGNED TO REALIZE A )  
REASONABLE RATE OF RETURN ON THE )  
FAIR VALUE OF ITS PROPERTY )  
THROUGHOUT THE STATE OF ARIZONA )

DOCKET NO. W-02450A-09-0081

IN THE MATTER OF THE APPLICATION OF )  
VALENCIA WATER COMPANY-TOWN )  
DIVISION FOR THE ESTABLISHMENT OF )  
JUST AND REASONABLE RATES AND )  
CHARGES FOR UTILITY SERVICE DESIGNED )  
TO REALIZE A REASONABLE RATE OF )  
RETURN ON THE FAIR VALUE OF ITS )  
PROPERTY THROUGHOUT THE STATE OF )  
ARIZONA )

DOCKET NO. W-01212A-09-0082

SURREBUTTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 7, 2009

## **EXECUTIVE SUMMARY**

**GLOBAL WATER-PALO VERDE UTILITIES COMPANY, ET AL  
DOCKET NO. SW-20445A-09-0077, W-02451A-09-0078, W-01732A-09-0079, W-20446A-  
09-0080, W-02450A-09-0081 AND W-01212A-09-0082**

### **Sun Valley Storage Issue**

Staff concludes that the Sun Valley Water System (PWS #07-195) has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth if the stand-by well, located a short distance away is available.

Staff recommends that Valencia Water Company-Greater Buckeye Division be required to report this stand-by well in future Annual Reports.

Staff continues to recommend that if the company finds that it is not cost-effective to reduce its water loss to less than 10% that it should submit a detailed cost analysis and explanation demonstrating why water loss reduction of less than 10% is not cost-effective.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of  
4 employment is the Arizona Corporation Commission ("Commission"), Utilities Division,  
5 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7 **Q. Are you the same Jian W. Liu who filed direct testimony in this case?**

8 A. Yes, I am.  
9

10 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

11 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of  
12 Staff, to the rebuttal testimony of the Global Utilities' witness, Mr. Graham Symmonds,  
13 regarding the Sun Valley Storage Issue. The Company indicates that there is a stand-by  
14 well, located a short distance away, and connected to the existing tanks. This well, with  
15 capacity of 300 gpm, is available if it is needed for any emergency which negates the need  
16 for additional storage as recommended by Staff. The Company submitted a copy of  
17 Approval of Construction for the well.

18  
19 Staff reviewed Well Registry Report from the Arizona Department of Water Resources  
20 ("ADWR"); the well number is 55-800946, producing a total of 500 gallons per minute  
21 ("gpm") when it was constructed in 1957.

22  
23 Staff concludes that the Sun Valley Water System (PWS #07-195) has adequate  
24 production capacity and storage capacity to serve the existing customer base and  
25 reasonable growth if the stand-by well, located a short distance away is available.

1 Staff recommends that Valencia Water Company-Greater Buckeye Division be required to  
2 report this stand-by well in future Annual Reports.

3  
4 **Q. Have you had the opportunity to review Mr. Symmonds Rebuttal Testimony**  
5 **regarding water loss?**

6 A. Yes.

7  
8 **Q. Do you have any comments regarding this portion of Mr. Symmonds testimony?**

9 A. Yes. Staff agrees with the Company that neither the Unavoidable Annual Real Losses  
10 ("UARL") nor the Gallons Per Hour Per Mile Per Inch ("GPHMI") methods apply to any  
11 of the systems in this case that are experiencing excessive water loss. Also, the Company  
12 does not mention the cost of reducing the water loss in its systems. Staff continues to  
13 recommend that if the Company finds that it is not cost-effective to reduce its water loss to  
14 less than 10% that it should submit a detailed cost analysis and explanation demonstrating  
15 why water loss reduction of less than 10% is not cost-effective.

16  
17 **Q. Did you attempt to address every issue the Company raised in its rebuttal testimony?**

18 A. No. Staff limited its discussion to the specific issue as outlined above. Staff's lack of  
19 response to any issue in this proceeding should not be construed as agreement with the  
20 Company's position in its rebuttal testimony; rather where there is no response, Staff  
21 relies on its original direct testimony.

22  
23 **Q. Does this conclude your surrebuttal testimony?**

24 A. Yes, it does.